

This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment without notice. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 8, 2008

NEW ISSUES—BOOK-ENTRY ONLY

Ratings: See “RATINGS”

In the opinion of McGuireWoods LLP, Bond Counsel, based on existing law and assuming compliance with the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), as described herein, interest on the Series 2008 Bonds is excludable from gross income of the owners of the Series 2008 Bonds for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2008 Bonds may, however, be included in the calculation of certain taxes, including the alternative minimum tax on corporations, as described under “TAX MATTERS” herein. In the opinion of Bond Counsel, interest on the 2008 Bonds, including any profit made on the sale thereof, is exempt from all taxation by the Commonwealth of Virginia or any political subdivision thereof. See “TAX MATTERS.”



\$344,850,000*
INDUSTRIAL DEVELOPMENT AUTHORITY OF FAIRFAX COUNTY, VIRGINIA
HEALTH CARE REVENUE REFUNDING BONDS
(INOVA HEALTH SYSTEM PROJECT), SERIES 2008

Dated: Date of Issuance

Price 100%

Due: As shown below

The above-captioned bonds (the “Series 2008 Bonds”) will be limited obligations of the Industrial Development Authority of Fairfax County, Virginia (the “Authority”), with each series secured under the provisions of a separate Trust Agreement, each dated as of April 1, 2008, between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”), with each series payable from and secured by a pledge of payments to be made under a separate Loan Agreement (each, an “Agreement”) by and among the Authority and one or more of Inova Health System Foundation (“Inova”), Inova Health Care Services (the “Corporation”), Inova Alexandria Hospital (“IAH”), Loudoun Healthcare, Inc. (“Loudoun”) and Loudoun Hospital Center (“Loudoun Hospital”). The Corporation, IAH, Inova Alexandria Health Services Corporation (“Alexandria Services”), Loudoun, Loudoun Hospital and Inova Health System Services (“Services”) are controlled affiliates of

INOVA HEALTH SYSTEM FOUNDATION

The obligations of the borrower or borrowers under each Agreement will be evidenced by a separate promissory note issued under an Amended and Restated Master Trust Indenture, dated as of April 1, 2008, as supplemented, by and among the Obligated Group, consisting of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services, and U.S. Bank National Association, as master trustee.

The Series 2008 Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Series 2008 Bonds. During the Initial Long-Term Interest Rate Period, the Series 2008 Bonds may be purchased in denominations of \$5,000 and integral multiples thereof. Purchases of Series 2008 Bonds may be made only in book-entry form through DTC Participants, and no physical delivery of the Series 2008 Bonds will be made to the Beneficial Owners (as defined herein), except as herein described. So long as Cede & Co. is the registered owner, as nominee for DTC, of the Series 2008 Bonds, references herein to the registered owners of the Series 2008 Bonds shall mean Cede & Co., and shall not mean the Beneficial Owners of the Series 2008 Bonds. Interest on the Series 2008 Bonds, together with the principal of and premium, if any, thereon will be paid by the Bond Trustee to Cede & Co. so long as Cede & Co. is the Holder. The disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests in the Series 2008 Bonds is the responsibility of DTC Participants and Indirect Participants. See “THE SERIES 2008 BONDS—Book-Entry Only System.”

The Series 2008 Bonds will be issued initially bearing interest at a fixed, term rate (the “Initial Long-Term Interest Rate”) for a long-term interest rate period beginning on the Commencement Date set forth below and concluding on the End Date set forth below (in each case, the “Initial Long-Term Interest Rate Period”). The final maturity date, the applicable Initial Long-Term Interest Rate and the Commencement Date and End Date for the Initial Long-Term Interest Rate Period for each Subseries of the Series 2008 Bonds are as follows:

MATURITY SCHEDULE*

Series	Final Maturity Date	Aggregate Principal Amount	Initial Long-Term Interest Rate	Commencement Date	End Date	Initial Mandatory Tender Date
Series 2008A-1	5/15/35	\$34,975,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008A-2	5/15/35	\$34,975,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008B-1	5/15/26	\$34,850,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008B-2	5/15/26	\$34,850,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-1	4/15/35	\$51,300,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-2	4/15/35	\$51,300,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-3	4/15/35	\$51,300,000	—%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-4	4/15/35	\$51,300,000	—%	April 17, 2008	April 19, 2009	April 20, 2009

Interest on the Authority’s (i) Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008A-1 and Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008A-2 (the “Series 2008A Bonds”) and (ii) Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008B-1 and Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008B-2 (the “Series 2008B Bonds”) in the Initial Long-Term Interest Rate Period will be paid on each May 15 and November 15, commencing May 15, 2008. Interest on the Authority’s Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C-1, Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C-2, Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C-3 and Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C-4 (the “Series 2008C Bonds”) in the Initial Long-Term Interest Rate Period will be paid on each April 15 and October 15, commencing October 15, 2008. The Series 2008 Bonds are subject to redemption as described herein under “THE SERIES 2008 BONDS - Redemption of Series 2008 Bonds.”

The Series 2008 Bonds are subject to mandatory tender for purchase on the Initial Mandatory Tender Date set forth above at a tender price (the “Tender Price”) equal to the principal amount of the Series 2008 Bonds tendered for purchase. Inova and U.S. Bank National Association, as tender agent (the “Tender Agent”), will enter into a separate Liquidity Agreement, dated as of April 1, 2008 (the “Inova Liquidity Facility”), relating to each Subseries of the Series 2008 Bonds. The Inova Liquidity Facility constitutes an obligation of Inova to pay the Tender Price of Bonds tendered on the Initial Mandatory Tender Date while the Series 2008 Bonds bear interest at the Long-Term Interest Rate (and the Tender Price due upon a mandatory tender or optional tender in the event the Series 2008 Bonds are converted to a Weekly Interest Rate following the Initial Long-Term Interest Rate Period), if there are insufficient funds available from remarketing proceeds to pay such Tender Price.

Failure to pay the Tender Price is an Event of Default under the applicable Trust Agreement, and the Series 2008 Bonds may be subject to acceleration.

The remarketing agent for the Series 2008 Bonds in the Initial Long-Term Interest Rate Period is Citigroup Global Markets Inc. (the “Remarketing Agent”).

This Official Statement describes in general the terms of the Series 2008 Bonds only while the Series 2008 Bonds bear interest at the Initial Long-Term Interest Rate, and at a Weekly Interest Rate in the event the Series 2008 Bonds are converted to a Weekly Interest Rate at the end of the Initial Long-Term Interest Rate Period. This Official Statement does not describe all factors relevant to the Series 2008 Bonds upon conversion of the Series 2008 Bonds to Interest Rate Periods other than the Weekly Interest Rate Period as provided in the applicable Trust Agreement. This cover contains information for quick reference only. Investors must read the entire Official Statement, including all appendices, to obtain information essential to making an informed investment decision.

THE SERIES 2008 BONDS WILL NOT CONSTITUTE GENERAL OBLIGATIONS OF THE AUTHORITY, THE COMMONWEALTH OF VIRGINIA, FAIRFAX COUNTY, VIRGINIA, OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA, FAIRFAX COUNTY, VIRGINIA, OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

The Series 2008 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale and to the approval of legality by McGuireWoods LLP of New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Authority by David P. Bobzien, Esq., County Attorney for Fairfax County, Virginia. Certain legal matters will be passed upon for the Obligated Group by its counsel, McGuireWoods LLP of Richmond, Virginia. Certain legal matters will be passed upon for the Underwriter by its counsel, King & Spalding LLP. It is expected that the Series 2008 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about April 17, 2008

Citi

April __, 2008.

* Preliminary, subject to change.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF FAIRFAX COUNTY, VIRGINIA**
(Commonwealth of Virginia)
Fairfax, Virginia

Charles R. Rainey, Jr.	Chairperson
Diane L. Stoddard	Vice Chairperson
Robert J. Surovell	Secretary
Joseph A. Heastie	Assistant Secretary
Douglas Denny	Board Member
Marcus B. Simon	Board Member
Charles Watson	Board Member

PRESIDENT OF INOVA HEALTH SYSTEM FOUNDATION
J. Knox Singleton

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New York, New York

COUNSEL TO THE OBLIGATED GROUP
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Richmond, Virginia

UNDERWRITER'S COUNSEL
King & Spalding LLP

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

No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations, other than those in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Series 2008 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been obtained from the Authority, Inova, the Corporation, Services, IAH, Alexandria Services, Loudoun, Loudoun Hospital, The Depository Trust Company and other sources that are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. Except as it relates to the Authority, the information herein is not to be construed as a representation by the Authority. The information herein is not to be construed as a representation by the Bond Trustee or the Master Trustee. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

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OFFICIAL STATEMENT

\$344,850,000*

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF FAIRFAX COUNTY, VIRGINIA
Health Care Revenue Refunding Bonds
(Inova Health System Project)
Series 2008**

MATURITY SCHEDULE*

<u>Series</u>	<u>Final Maturity Date</u>	<u>Aggregate Principal Amount</u>	<u>Initial Long-Term Interest Rate</u>	<u>Commencement Date</u>	<u>End Date</u>	<u>Initial Mandatory Tender Date</u>
Series 2008A-1	5/15/35	\$34,975,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008A-2	5/15/35	\$34,975,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008B-1	5/15/26	\$34,850,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008B-2	5/15/26	\$34,850,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-1	4/15/35	\$51,300,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-2	4/15/35	\$51,300,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-3	4/15/35	\$51,300,000	____%	April 17, 2008	April 19, 2009	April 20, 2009
Series 2008C-4	4/15/35	\$51,300,000	____%	April 17, 2008	April 19, 2009	April 20, 2009

INTRODUCTORY STATEMENT

Purpose of the Series 2008 Bonds

The purpose of this Official Statement, including the cover, and the appendices hereto, is to set forth information in connection with the offering by the Industrial Development Authority of Fairfax County, Virginia, a political subdivision of the Commonwealth of Virginia (the “Authority”), of its \$344,850,000* aggregate principal amount of Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008, issued in three series as follows:

\$69,950,000* Series 2008A Bonds, consisting of \$34,975,000* Series 2008A-1 Bonds and \$34,975,000* Series 2008A-2 Bonds (collectively, the “Series 2008A Bonds”),

\$69,700,000* Series 2008B Bonds, consisting of \$34,850,000* Series 2008B-1 Bonds and \$34,850,000* Series 2008B-2 Bonds (collectively, the “Series 2008B Bonds”), and

\$205,200,000* Series 2008C Bonds, consisting of \$51,300,000* Series 2008C-1 Bonds, \$51,300,000* Series 2008C-2 Bonds, \$51,300,000* Series 2008C-3 Bonds and \$51,300,000* Series 2008C-4 Bonds (collectively, the “Series 2008C Bonds”), each dated their date of issuance (collectively, the “Series 2008 Bonds”).

* Preliminary, subject to change.

Each series of the Series 2008 Bonds will be issued pursuant to (i) a separate Trust Agreement, dated as of April 1, 2008 (each, a “Trust Agreement” and, collectively, the “Trust Agreements”), by and between the Authority and U.S. Bank National Association, Richmond, Virginia, as trustee (the “Bond Trustee”), (ii) a Series Resolution adopted by the Authority on March 27, 2008, and (iii) the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended (the “Act”).

The proceeds of the sale of each series of the Series 2008 Bonds will be loaned by the Authority to one or more of Inova Health System Foundation (“Inova”), Inova Health Care Services (the “Corporation”), Inova Alexandria Hospital (“IAH”), Loudoun Healthcare Inc. (“Loudoun”) and Loudoun Hospital Center (“Loudoun Hospital”) pursuant to the terms of a separate Loan Agreement, by and among the Authority and the applicable borrower or borrowers (each, a “Borrower”), dated as of April 1, 2008 (each, an “Agreement” and, collectively, the “Agreements”). Such funds, together with other available funds, will be used to refund the Series 2005B, D and E Bonds (as defined herein) and to pay a portion of the costs of issuance of the Series 2008 Bonds. See “PLAN OF FINANCING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Authority

The Series 2008 Bonds will be issued by the Authority which was created pursuant to the Act as a body corporate and politic. The Authority is empowered to enter into loan agreements, contracts, deeds and other instruments for the purpose of financing or refinancing certain facilities, including medical facilities and other facilities owned and operated or used by organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), to the end that the Authority may protect and promote the health and welfare of the inhabitants of the Commonwealth of Virginia, and to issue its revenue bonds for the purpose of carrying out any of its powers.

The Obligated Group

Inova Health System Foundation (“Inova”), formerly known as Fairfax Hospital Association Foundation, was incorporated in 1977 and is the sole member of the Corporation, which was formerly known as Inova Health System Hospitals and Fairfax Hospital Association. The Corporation, which was incorporated in 1956, currently operates three hospitals. The largest hospital, Inova Fairfax Hospital located in Falls Church, Virginia, is licensed to operate 833 beds, has an expanding role as a tertiary healthcare center and is the largest provider of obstetrical services in the Mid-Atlantic region. Inova Mount Vernon Hospital, located in Alexandria, Virginia, is licensed to operate 237 beds, serves the southeastern sector of Fairfax County, Virginia (the “County”) and Alexandria, Virginia, and is a regional referral center for medical rehabilitation services. Inova Fair Oaks Hospital, located in western Fairfax County, is a 160-bed community hospital serving the Fair Oaks area of the County. The land and facilities which comprise Inova Fairfax Hospital and Inova Mount Vernon Hospital are owned by the County and leased to the Corporation under a lease with a remaining term of over 50 years (the “County Lease Agreement”). Inova is also the sole member of Inova Health System Services (“Services”), which was incorporated in 1987, and currently owns and operates two long-term care facilities and other non-hospital healthcare facilities and services. Cameron Glen Care

Center, located in Reston, Virginia, is a 229-bed facility containing intermediate and skilled nursing care, a 55-bed assisted living unit and an Alzheimer's care unit. Commonwealth Care Center, located in Fairfax, Virginia, is a 134-bed facility containing intermediate and skilled nursing care and an Alzheimer's unit. Inova also controls other affiliates including Alexandria Services, Loudoun, Inova Holdings, Inc. and Imanco, Inc. Alexandria Services is the sole member of IAH, a 318-bed hospital located in the City of Alexandria, Virginia. Loudoun operates Inova Loudoun Hospital, a 155-bed acute care hospital, and also operates a nursing home in Loudoun County, Virginia. See "INTRODUCTION—Security for the Series 2008 Bonds."

Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services, as Members of the Obligated Group, will be jointly and severally liable for the payment of Obligation No. 42, Obligation No. 43 and Obligation No. 44 (each described below), which will secure the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, respectively, and for the payment of all other Obligations issued and outstanding under the Master Indenture referred to herein. See Appendix A hereto for further information regarding the Obligated Group and Appendix B hereto for the consolidated audited financial statements of Inova.

Prior Obligations

Upon the issuance of the Series 2008 Bonds, the outstanding indebtedness of the Obligated Group will include Obligations securing

- (i) the Series 2008 Bonds,
- (ii) the Authority's Variable Rate Demand Obligation Revenue Bonds (Fairfax Hospital System, Inc.), Series 1988 A, B, C and D (the "Series 1988 Bonds"), outstanding in the aggregate principal amount of \$49,500,000,
- (iii) the Authority's Hospital Revenue Refunding Bonds (Inova Health System Hospitals Project), Series 1993A (the "Series 1993 Bonds"), outstanding in the aggregate principal amount of \$95,910,000,
- (iv) the Authority's Health Care Revenue Refunding Bonds (Inova Health System Project), Series 1998A, outstanding in the aggregate principal amount of \$78,135,000 (the "Series 1998 Bonds"),
- (v) the Authority's Variable Rate Demand Health Care Revenue Bonds (Inova Health System Project), Series 2000, outstanding in the aggregate principal amount of \$69,400,000 (the "Series 2000 Bonds"), and
- (vi) the Authority's Health Care Revenue Bonds (Inova Health System Project), Series 2005A and C, outstanding in the aggregate principal amount of \$215,400,000 (the "Series 2005A and C Bonds"). See "ESTIMATED DEBT SERVICE REQUIREMENTS" and "SECURITY FOR THE SERIES 2008 BONDS—Prior Obligations."

A portion of the proceeds of the Series 2008 Bonds will be used to refund the Authority's Health Care Revenue Bonds (Inova Health System Project), Series 2005B, D and E (the "Series 2005B, D and E Bonds"), outstanding in the aggregate principal amount of \$344,850,000. See "PLAN OF FINANCING." See Appendix A—"Inova Health System Foundation and the Members of the Obligated Group—Results of Operations."

Amended and Restated Master Indenture

The Amended and Restated Master Indenture, dated as of April 1, 2008 (the "Master Trust Indenture"), as supplemented, by and among the Obligated Group, consisting of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services, and U.S. Bank National Association, as master trustee (the "Master Trustee"), amends and restates the First Amended and Restated Master Trust Indenture, dated as of October 1, 1985, between the Obligated Group and U.S. Bank National Association, as successor master trustee (as heretofore amended and supplemented, the "Existing Master Indenture"). By their purchase of the Series 2008 Bonds, the original purchasers thereof will (i) consent to the amendment of the provisions of the Existing Master Indenture provided in the Master Trust Indenture; (ii) waive any notice of such amendment as required by the Existing Master Indenture; and (iii) appoint Citigroup Global Markets Inc. (the "Underwriter") as the attorney-in-fact for such original purchasers for the purpose of executing a consent to such amendment. Upon the issuance of the Series 2008 Bonds, more than 51% in aggregate principal amount of all Obligations outstanding under the Existing Master Indenture will have approved the Master Trust Indenture and the Master Trust Indenture will then become effective. See Appendix C - "Definitions of Certain Terms and Summaries of Principal Documents - Summary of Certain Provisions of the Master Indenture."

Security for the Series 2008 Bonds

Each series of the Series 2008 Bonds will be issued under and secured by a separate Trust Agreement. In addition, the Authority and one or more of Inova, the Corporation, IAH, Loudoun and Loudoun Hospital will enter into a separate Agreement with respect to each series of the Series 2008 Bonds pursuant to which each Borrower will agree to make loan repayments in amounts sufficient to pay the debt service requirements on such series.

The Series 2008A Bonds are limited obligations of the Authority payable from payments made by the Corporation and IAH pursuant to the Loan Agreement, dated as of April 1, 2008 (the "Series 2008A Agreement"), and Obligation No. 42 ("Obligation No. 42") issued under the Master Trust Indenture, as supplemented, and from amounts held by the Bond Trustee in certain funds and accounts under the applicable Trust Agreement.

The Series 2008B Bonds are limited obligations of the Authority payable from payments made by Inova, Loudoun and Loudoun Hospital pursuant to the Loan Agreement, dated as of April 1, 2008 (the "Series 2008B Agreement"), and Obligation No. 43 ("Obligation No. 43") issued under the Master Trust Indenture, as supplemented, and from amounts held by the Bond Trustee in certain funds and accounts under the applicable Trust Agreement.

The Series 2008C Bonds are limited obligations of the Authority payable from payments made by the Corporation pursuant to the Loan Agreement, dated as of April 1, 2008 (the "Series

2008C Agreement”), and Obligation No. 44 (“Obligation No. 44” and, together with Obligation No. 42 and Obligation No. 43, the “Series 2008 Obligations”) issued under the Master Trust Indenture, as supplemented, and from amounts held by the Bond Trustee in certain funds and accounts under the applicable Trust Agreement.

Pursuant to the Agreements, the Authority will lend the proceeds of the Series 2008 Bonds to one or more of Inova, the Corporation, IAH, Loudoun and Loudoun Hospital. The Borrower will execute and deliver to the Authority, for assignment to the Bond Trustee, each of the Series 2008 Obligations as security for the obligation to make payments pursuant to the applicable Agreement. The Series 2008 Obligations are unsecured, joint and several, general obligations of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services, as the current Members of the Obligated Group. Payments on each of the Series 2008 Obligations are required to be in amounts sufficient to pay in full, when due, the principal of, premium, if any, and interest on the applicable series of the Series 2008 Bonds.

Obligation No. 42 will constitute an Obligation issued under the Master Trust Indenture, as supplemented by the Supplemental Indenture for Obligation No. 42, dated as of April 1, 2008, by and among the Corporation and IAH, on behalf of the Members of the Obligated Group, and the Master Trustee (the “Supplemental Indenture for Obligation No. 42”).

Obligation No. 43 will constitute an Obligation issued under the Master Trust Indenture, as supplemented by the Supplemental Indenture for Obligation No. 43, dated as of April 1, 2008, by and among Inova, Loudoun and Loudoun Hospital, on behalf of the Members of the Obligated Group, and the Master Trustee (the “Supplemental Indenture for Obligation No. 43”).

Obligation No. 44 will constitute an Obligation issued under the Master Trust Indenture, as supplemented by the Supplemental Indenture for Obligation No. 44, dated as of April 1, 2008, by and between the Corporation, on behalf of the Members of the Obligated Group, and the Master Trustee (the “Supplemental Indenture for Obligation No. 44”). The Master Trust Indenture, as supplemented by the Supplemental Indenture for Obligation No. 44, the Supplemental Indenture for Obligation No. 42, and the Supplemental Indenture for Obligation No. 43, and as otherwise supplemented and amended from time to time, is referred to as the “Master Indenture.”

Each of the Series 2008 Obligations is an unsecured, joint and several, general obligation of the Members of the Obligated Group that provides for the payment of amounts sufficient to pay the principal or redemption price of and interest on the applicable series of the Series 2008 Bonds, with a credit for the amounts paid by the Borrower under the applicable Agreement. The Master Indenture contains certain covenants to be observed and performed by the Obligated Group, including maintenance of a Long-Term Debt Service Coverage Ratio of not less than 1.10 and limitations on incurrence of additional indebtedness, transfers of assets, encumbrances of the Property of the Obligated Group, and additions to or withdrawals from the Obligated Group. **The Master Indenture provides that certain of these covenants may be amended without the consent of the Holders of Obligations (including the Holders of the Series 2008 Obligations) if the Long-Term Debt Service Coverage Ratio for the Combined Group (described below) for the Fiscal Year preceding such amendment was at least 1.75 or the Obligated Group delivers credit enhancement to secure the Series 2008 Bonds and any**

other Related Bonds secured by Obligations such that the ratings thereon shall not be lowered or withdrawn; however, this amendment provision may not be used to change the joint and several liability of the Obligated Group on the Obligations, the provisions permitting creation of certain liens on the Property of the Obligated Group, the tests for admission to or withdrawal from the Obligated Group or Combined Group or to reduce any financial covenant or test for the Long-Term Debt Service Coverage Ratio to less than 1.10. See Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents —Summary of Certain Provisions of the Master Indenture—Supplements Not Requiring Consent of Holders.”

The Master Indenture permits other entities, upon compliance with certain conditions, to become Members of the Obligated Group and to issue Obligations thereunder. Each Member of the Obligated Group will, subject to the right of such Member to withdraw from the Obligated Group under certain conditions, covenant to promptly make any and all payments on all Obligations heretofore and hereafter issued under the Master Indenture, including the Series 2008 Obligations, according to the terms thereof. Such payment requirements constitute joint and several obligations of the Members of the Obligated Group. See Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture” for a description of the provisions permitting an entity to join, or withdraw from, the Obligated Group.

Liquidity Facility

Inova will enter into a separate Liquidity Agreement, each dated as of April 1, 2008, with U.S. Bank National Association, as tender agent (the “Tender Agent”), relating to each Subseries of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds (each such Liquidity Agreement, a “Liquidity Facility”). The Liquidity Facility constitutes an obligation of Inova to pay the Tender Price of Series 2008 Bonds tendered on the Initial Mandatory Tender Date as set forth on the cover of this Official Statement, the next day succeeding the last day of the Initial Long-Term Interest Rate Period for the Series 2008 Bonds (and the Tender Price due upon a mandatory tender or optional tender in the event the Series 2008 Bonds are converted to a Weekly Interest Rate following the Initial Long-Term Interest Rate Period), if there are insufficient funds available from remarketing proceeds to pay such Tender Price.

Failure to pay the Tender Price is an Event of Default under the applicable Trust Agreement, and the Series 2008 Bonds may be subject to acceleration.

Other Financing Plans

None of the Members of the Obligated Group expects to incur other long-term indebtedness in 2008. See Appendix A - “Inova Health System Foundation and the Members of the Obligated Group - Building Programs and Future Projects” hereto.

The Combined Group

The Members of the Obligated Group will be the sole entities responsible for the payment of Obligations (including the Series 2008 Obligations) issued under the Master Indenture and for

the performance of the covenants and agreements set forth in the Master Indenture. Subject to certain conditions, the Master Indenture permits the Members of the Obligated Group to designate certain of their respective Affiliates as Restricted Affiliates for the purposes of the Master Indenture. Such Restricted Affiliates, together with the Obligated Group, are referred to collectively as the “Combined Group.” The income and expenses of any Restricted Affiliates are taken into account in determining compliance with the financial covenants under the Master Indenture, including the Long-Term Debt Service Coverage Ratio, since these covenants are measured on the basis of the Combined Group. The Restricted Affiliates are not liable under the Master Indenture and there is no recourse against the Restricted Affiliates or their assets in the event of a default thereunder. The Members of the Obligated Group will, however, be obligated to cause their respective Restricted Affiliates to transfer funds or other assets to the Member of the Obligated Group that is its sole member, beneficiary or controlling person to the extent permitted by law so that the Obligated Group can satisfy its debt service requirements applicable to any Obligation. Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services have no present plans to withdraw from the Obligated Group. Any additions to or withdrawal from the Obligated Group may be accomplished only upon satisfaction of the conditions therefor provided in the Master Indenture. Further, there are no Restricted Affiliates at this time, nor is there any present intention to cause or permit any entity to become a Restricted Affiliate.

Additional Indebtedness

The Members of the Obligated Group, upon compliance with the terms and conditions and for the purposes described in Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture—Limitations on Indebtedness” may incur additional indebtedness. Such indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a joint and several obligation of each Member of the Obligated Group on a parity with the Series 2008 Obligations and all other Obligations outstanding under the Master Indenture. See Appendix A—“Inova Health System Foundation and the Members of the Obligated Group - Long-Term Debt and Guaranteed Indebtedness.” Such indebtedness, if not so evidenced, would constitute a debt solely of the borrower and any guarantor thereof, and not a joint and several obligation of the Members of the Obligated Group.

Bondholders’ Risks

There are risks associated with the purchase of the Series 2008 Bonds. See the information under the captions “BONDHOLDERS’ RISKS” and “REGULATION OF THE HEALTHCARE INDUSTRY” for a discussion of certain of these risks.

Defined Terms

All capitalized terms used in this Official Statement, unless otherwise defined or the context otherwise indicates, shall have the same meanings as in the Master Indenture, the Trust Agreements or the Agreements, as the case may be. These definitions are summarized in Appendix C hereto.

Continuing Disclosure

Pursuant to the provisions of an Agreement to Provide Continuing Disclosure (the “Disclosure Agreement”), each Member of the Obligated Group has undertaken to provide disclosure of financial and operating data, including certain financial statements, which are not required to be audited, on an annual basis, and notice of the occurrence of certain events, if material, on an ongoing basis, for the benefit of the Holders of the Series 2008 Bonds. The Disclosure Agreement provides that its provisions will be binding on any entity subsequently joining the Obligated Group. The undertaking by the Obligated Group to provide such information in connection with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), is set forth in Appendix E - “Proposed Form of Agreement to Provide Continuing Disclosure.”

In the event the Series 2008 Bonds are converted to an interest rate mode that qualifies for an exemption from Rule 15c2-12, including a conversion to the Weekly Interest Rate, the Disclosure Agreement may, at the election of the Members of the Obligated Group, be terminated at the time of such conversion.

Financial Statements

The consolidated financial statements of Inova as of December 31, 2007 and 2006 and for the years then ended included in Appendix B have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing in Appendix B. Not all controlled affiliates of Inova are Members of the Obligated Group. For the fiscal year ended December 31, 2007, the Obligated Group represented approximately 96% of total revenues and 98% of net income of Inova and its controlled affiliates. The balance of total revenues of Inova and its controlled affiliates was generated by non-hospital operations. See Appendix A—“Inova Health System Foundation and the Members of the Obligated Group - Results of Operations.”

Ratings

Inova expects to receive a rating on the Series 2008 Bonds of “Aa2/VMIG1” and “AA+/A-1+” from Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, respectively. Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. See “RATINGS.”

Underlying Documents

The descriptions 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 such document. Copies of the Master Indenture, the Trust Agreements and the Agreements are available in reasonable quantities upon request to the Bond Trustee.

The foregoing is furnished solely to provide limited introductory information regarding the Series 2008 Bonds and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, to which reference should be made.

THE AUTHORITY

The Series 2008 Bonds shall not be or constitute a general obligation or a pledge of the faith, credit or taxing power of the Authority, the Commonwealth of Virginia or any political subdivision thereof, or a lien upon any property. The Holders of the Series 2008 Bonds shall never have the right to require or compel the Authority, the Commonwealth of Virginia or any political subdivision thereof to levy any ad valorem taxes on any property to pay the principal or redemption price of or interest on the Series 2008 Bonds, which will be payable solely from the payments to be made pursuant to the applicable Agreement or the applicable Series 2008 Obligation and pledged under the applicable Trust Agreement.

The present members of the Authority, the expiration date of their respective terms, their titles and their occupations are listed below:

<u>Name</u>	<u>Expiration Date of Term</u>	<u>Title</u>	<u>Occupation</u>
Charles R. Rainey, Jr.	10/31/2011	Chairperson	Real Estate Attorney & Title Ins. Exec.
Diane L. Stoddard	10/31/2009	Vice Chairperson	Attorney
Robert J. Surovell	10/31/2008	Secretary	Attorney
Joseph A. Heastie	10/31/2011	Assistant Secretary	Retired
Marcus B. Simon	10/31/2009	Member	Attorney
Charles Watson	10/31/2008	Member	Information Systems Engineer
Douglas Denny	10/31/2009	Member	Business Development

THE SERIES 2008 BONDS

General Description

This Official Statement describes the terms and conditions of the Series 2008 Bonds only while the Series 2008 Bonds bear interest at the Initial Long-Term Interest Rate during the Initial Long-Term Interest Rate Period, and in the event the Series 2008 Bonds are converted to a Weekly Interest Rate at the end of the Initial Long-Term Interest Rate Period. It is currently anticipated that, should any of the Series 2008 Bonds be converted at the end of the Initial Long-Term Interest Rate Period to bear interest at an Auction Period Rate, a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates or a new Long-Term Interest Rate, a remarketing memorandum or remarketing circular will be distributed providing notice that the Series 2008 Bonds are being converted to such interest rate. The provisions relating to the Weekly Interest Rate are described herein and will be applicable in the event that notice of a conversion to the Weekly Interest Rate is given.

The Series 2008 Bonds will be dated their date of issuance and will bear interest from their dated date at the rates and will mature, subject to the right of redemption described below,

as set forth on the cover of this Official Statement. Interest on the Series 2008 Bonds will be payable on each Interest Payment Date at the rates per annum determined as hereinafter described but not in excess of the lesser of 12% per annum and the maximum interest rate permitted by law with respect to the Series 2008 Bonds (the “Maximum Rate”).

The Series 2008 Bonds will be issued only as fully registered bonds without coupons in initial denominations of \$5,000 or any integral multiple thereof. In the event the Series 2008 Bonds are converted to bear interest at the Weekly Interest Rate, the Series 2008 Bonds will be remarketed in denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

The Series 2008 Bonds shall bear interest initially at the Initial Long-Term Interest Rates shown on the cover page of this Official Statement until a Conversion to ARS, a Daily Interest Rate Period, a Weekly Interest Rate Period, a Short-Term Interest Rate Period, or a new Long-Term Interest Rate Period.

Interest on the Series 2008 Bonds bearing interest at a Long-Term Interest Rate shall accrue on the basis of a 360-day year consisting of twelve 30-day months. In the event the Series 2008 Bonds are converted to bear interest at a Weekly Interest Rate, such interest will accrue on the basis of the actual number of days elapsed during the Weekly Interest Rate Period and a year consisting of 365 days (366 days in a leap year).

While the Series 2008 Bonds bear interest in a Long-Term Interest Rate Period, interest on the Series 2008 Bonds will be payable on the interest payment dates shown below, commencing on the date shown below, or the next succeeding Business Day if any such interest payment date is not a Business Day:

Series	Interest Payment Dates during Long-Term Interest Rate Period	Initial Interest Payment Date
Series 2008A	May 15 and November 15	May 15, 2008
Series 2008B	May 15 and November 15	May 15, 2008
Series 2008C	April 15 and October 15	October 15, 2008

Interest on the Series 2008 Bonds will be payable on each Interest Payment Date for the period commencing on the first day of the Long-Term Interest Rate Period and thereafter on each May 15 and November 15 (or April 15 and October 15 with respect to the Series 2008C Bonds) and ending on the day immediately preceding such Interest Payment Date, other than the last such Interest Payment Date.

For any Weekly Interest Rate Period, interest on the Series 2008 Bonds will be payable in arrears on the first Wednesday of each month, or the next succeeding Business Day if any such Wednesday is not a Business Day. Interest on the Series 2008 Bonds will be payable on each Interest Payment Date for the period commencing on the first day of the Weekly Interest Rate

Period and thereafter on the first Wednesday of the preceding month and ending on the Tuesday immediately preceding the Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period).

In any event, interest on the Series 2008 Bonds shall be payable for the final Interest Rate Period to the date on which the Series 2008 Bonds have been paid in full.

At no time will any Series 2008 Bond bear interest at a Long-Term Interest Rate or Weekly Interest Rate that is in excess of the Maximum Rate.

So long as the Series 2008 Bonds are in the book-entry only system through the facilities of The Depository Trust Company (“DTC”) and its securities depository nominee is the owner thereof, payments of principal of, redemption premium, if any, and interest on the Series 2008 Bonds will be made in accordance with existing agreements between the Bond Trustee and DTC.

If the Series 2008 Bonds are no longer in the book-entry only system, the principal of and premium, if any, on the Series 2008 Bonds shall be payable at the Designated Corporate Trust Office of the Bond Trustee in Richmond, Virginia, upon presentation and surrender of such Series 2008 Bonds.

Determination of Long-Term Interest Rates; Continuation of Long-Term Interest Rate; Conversion from Long-Term Interest Rate Period

(a) Determination of Long-Term Interest Rates. During the Initial Long-Term Interest Rate Period, the Series 2008 Bonds of a Subseries shall bear interest at the rates shown on the cover page of this Official Statement.

The Long-Term Interest Rate for any subsequent Long-Term Interest Rate Period shall be determined by the Remarketing Agent on a Business Day no later than the effective date of such Long-Term Interest Rate Period and shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Series 2008 Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2008 Bonds of a Subseries, would enable the Remarketing Agent to sell the Series 2008 Bonds of such Subseries on such effective date at a price (without regard to accrued interest) equal to the principal amount thereof.

All determinations of Long-Term Interest Rates shall be conclusive and binding upon the Authority, the Borrower, the Bond Trustee, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider (if any) and the Holders of the Series 2008 Bonds to which such Long-Term Interest Rates are applicable.

(b) Conversion to or Continuation of Long-Term Interest Rate.

(i) Subject to certain provisions in the applicable Trust Agreement, at any time, the Authorized Group Representative on behalf of the Authority, by written direction to the Authority, the Bond Trustee, the Tender Agent, the Liquidity Facility Provider (if any), the Remarketing Agent (if any), the Auction Agent (if any) and the

Broker-Dealers (if any), may elect that the Bonds of a Subseries shall bear, or continue to bear, interest at a Long-Term Interest Rate. The direction of the Authorized Group Representative (1) shall specify the duration of the Long-Term Interest Rate Period; (2) shall specify the proposed effective date of the Long-Term Interest Rate Period, which date shall be (x) in each case, a Business Day not earlier than the 20th day following the second Business Day after receipt by the Bond Trustee of such direction, (y) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period determined in accordance with the applicable Trust Agreement and (z) in the case of a Conversion from an ARS Rate Period, an Interest Payment Date immediately following an Auction Period; (3) shall specify the last day of the Long-Term Interest Rate Period (which last day shall be either the day immediately prior to the Maturity Date, or a day which both immediately precedes a Business Day and is at least 181 days after the effective date thereof); and (4) shall specify a Tender Date on which Holders of the Series 2008 Bonds are required to deliver their Series 2008 Bonds to be purchased.

(ii) The direction of the Authorized Group Representative described in the paragraph above shall be accompanied by a form of the notice to be mailed by Bond Trustee to the Holders of the Series 2008 Bonds as provided in “Notice of Conversion to or Continuation of Long-Term Interest Rate,” below. During the Long-Term Interest Rate Period, the interest rate on the Series 2008 Bonds of a Subseries shall be a Long-Term Interest Rate.

(iii) If, by the second Business Day preceding the 19th day prior to the last day of any Long-Term Interest Rate Period with respect to the Series 2008 Bonds of a Subseries, the Bond Trustee has not received notice of the Authorized Group Representative’s election that, during the next succeeding Interest Rate Period, the Series 2008 Bonds of such Subseries shall bear interest at a Weekly Interest Rate, a Daily Interest Rate, the Auction Period Rate or another Long-Term Interest Rate or at Bond Interest Term Rates, the next succeeding Interest Rate Period shall be a Weekly Interest Rate Period until such time as the interest rate shall be adjusted to a Daily Interest Rate or Long-Term Interest Rate or Bond Interest Term Rates or the Auction Period Rate as provided in the applicable Trust Agreement, and the Bonds of such Subseries shall be subject to mandatory purchase as provided in the applicable Trust Agreement on the first day of such Weekly Interest Rate Period.

(c) Notice of Conversion to or Continuation of Long-Term Interest Rate. The Bond Trustee shall give notice by first-class mail of a Conversion to a (or the establishment of another) Long-Term Interest Rate Period to the Holders of the Series 2008 Bonds of the Subseries to be converted not less than 20 days prior to the effective date of the Long-Term Interest Rate Period. Such notice shall state (A) that the interest rate shall be converted to, or continue to be, a Long-Term Interest Rate unless (1) the Authorized Group Representative rescinds its election to convert the interest rate to a Long-Term Interest Rate as provided in the applicable Trust Agreement or (2) all the Series 2008 Bonds of such Subseries are not remarketed at a Long-Term Interest Rate; (B) the proposed effective date, duration and last day of the Long-Term Interest Rate Period; (C) that the Series 2008 Bonds of such Subseries are subject to mandatory tender for purchase on such proposed effective date and setting forth the Tender Price and the place of

delivery for purchase of the Series 2008 Bonds of such Subseries; and (D) the other information specified in the applicable Trust Agreement.

(d) Conversion from Long-Term Interest Rate Period. The Authorized Group Representative on behalf of the Authority may elect, by written direction to the Bond Trustee, the Tender Agent (if any), the Liquidity Facility Provider (if any) and the Remarketing Agent (if any), subject to provisions in the applicable Trust Agreement, that, on the day immediately following the last day of a Long-Term Interest Rate Period or a day on which the Series 2008 Bonds would otherwise be subject to optional redemption pursuant to the applicable Trust Agreement, the Series 2008 Bonds of a Subseries shall no longer bear interest at the current Long-Term Interest Rate and shall instead bear interest at a Weekly Interest Rate, a Daily Interest Rate, Bond Interest Term Rates, the Auction Period Rate or a new Long-Term Interest Rate, as specified in such election. In the notice of such election, the Authorized Group Representative shall also specify the effective date of the new Interest Rate Period, which date (1) shall be a Business Day no earlier than the 20th day after the second Business Day following the date of receipt by the Bond Trustee of the notice of election from the Authorized Group Representative or, in the case of adjustment to a new Long-Term Interest Rate Period, the 20th day after the second Business Day following the date of receipt by the Bond Trustee of such notice and (2) shall be the day immediately following the last day of the Long-Term Interest Rate Period currently in effect or a day on which the Series 2008 Bonds would otherwise be subject to optional redemption pursuant to the Trust Agreement if such Conversion did not occur. The Series 2008 Bonds of the Subseries to be converted shall be subject to mandatory tender for purchase on the effective date of the new Interest Rate Period, in accordance with the applicable Trust Agreement.

In the event that any Subseries of the Series 2008 Bonds is converted to a Weekly Interest Rate, the following provisions will apply:

Determination of Weekly Interest Rates; Conversion to Weekly Interest Rate

(a) Determination of Weekly Interest Rates. The Weekly Interest Rate to be applicable to a Subseries of the Series 2008 Bonds during any Weekly Interest Rate Period applicable thereto shall be determined, and notice thereof shall be given, as follows:

(i) A Weekly Interest Rate shall be determined by the Remarketing Agent for each Weekly Interest Rate Period not later than 5:00 p.m., New York City time, on Tuesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on and including the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on and including Wednesday and ending on and including the next succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on and including the Wednesday preceding the last day of such

Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period.

(ii) Each Weekly Interest Rate with respect to the Series 2008 Bonds of a Subseries shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Series 2008 Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Series 2008 Bonds of such Subseries, would enable the Remarketing Agent to sell all of the Series 2008 Bonds of such Subseries on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof.

(iii) If the Remarketing Agent fails to establish a Weekly Interest Rate for any week with respect to the Series 2008 Bonds of a Subseries, then the Weekly Interest Rate for such week with respect to the Series 2008 Bonds of such Subseries shall be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the date such Weekly Interest Rate would otherwise be determined as provided in the applicable Trust Agreement for such Weekly Interest Rate Period.

(iv) All determinations of Weekly Interest Rates shall be conclusive and binding upon the Authority, the Borrower, the Bond Trustee, the Tender Agent, the Remarketing Agent, the Liquidity Facility Provider (if any) and the Holders of the Series 2008 Bonds to which such Weekly Interest Rates are applicable.

(b) Conversion to Weekly Interest Rate. Subject to certain provisions in the applicable Trust Agreement, the Authorized Group Representative on behalf of the Authority may, from time to time, by written direction to the Authority, the Bond Trustee, the Tender Agent (if any), the Liquidity Facility Provider (if any), the Remarketing Agent (if any), the Auction Agent (if any) and the Broker-Dealers (if any), elect that a Subseries of Bonds shall bear interest at a Weekly Interest Rate. The direction of the Authorized Group Representative shall specify (A) the proposed effective date of the Conversion to a Weekly Interest Rate, which shall be (1) in each case, a Business Day not earlier than the 20th day following the second Business Day after receipt by the Bond Trustee of such direction, (2) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Series 2008 Bonds would otherwise be subject to optional redemption pursuant to the applicable Trust Agreement if such Conversion did not occur, (3) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period determined in accordance with the applicable Trust Agreement and (4) in the case of a Conversion from an

ARS Rate Period, an Interest Payment Date immediately following an Auction Period, and (B) the Tender Date for the Series 2008 Bonds to be purchased, which shall be the proposed effective date of the Conversion to a Weekly Interest Rate. In addition, the direction of the Authorized Group Representative shall be accompanied by a form of notice to be mailed to the Holders of the Series 2008 Bonds by the Bond Trustee as provided in “Notice of Conversion to Weekly Interest Rate” below. During each Weekly Interest Rate Period for the Series 2008 Bonds of a Subseries commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the Series 2008 Bonds of such Subseries shall be a Weekly Interest Rate.

(c) Notice of Conversion to Weekly Interest Rate. The Bond Trustee shall give notice by first-class mail of a Conversion to a Weekly Interest Rate Period to the Holders of the Bonds of the Subseries to be converted not less than 20 days prior to the proposed effective date of such Weekly Interest Rate Period. Such notice shall state (A) that the interest rate shall be converted to a Weekly Interest Rate unless the Authorized Group Representative rescinds its election to convert the interest rate to a Weekly Interest Rate as provided in the applicable Trust Agreement; (B) the proposed effective date of the Weekly Interest Rate Period; (C) that the Bonds of such Subseries are subject to mandatory tender for purchase on the proposed effective date and setting forth the Tender Price and the place of delivery for purchase of the Bonds of such Subseries; and (D) certain other information required by the applicable Trust Agreement.

Conversion of Interest Rates on Series 2008 Bonds

At the direction of the Authorized Group Representative on behalf of the Authority, from time to time, the Series 2008 Bonds of a Subseries may be converted, in whole, from an Interest Rate Period to another Interest Rate Period as provided in the applicable Trust Agreement.

(a) Notice Upon Converting Interest Rate. The Authorized Group Representative shall give written direction of such Conversion to the Remarketing Agent, the Authority, the Bond Trustee, the Tender Agent and the Liquidity Facility Provider (if any) specifying the proposed effective date of such Conversion and the Interest Rate Period to which Conversion will be made, accompanied by the notice required to be given by the Bond Trustee to the Holders and a Favorable Opinion of Bond Counsel. The Bond Trustee shall give notice by first-class mail of a Conversion to the holders of the Series 2008 Bonds of a Subseries to be converted not less than twenty (20) days prior to the proposed effective date of such Conversion.

(b) Rescission of Election. In connection with any Conversion of the Interest Rate Period for the Series 2008 Bonds of a Subseries, the Authorized Group Representative shall have the right to deliver to the Bond Trustee, the Authority, the Remarketing Agent, the Tender Agent, and the Liquidity Facility Provider (if any) on or prior to 10:00 a.m., New York City time, on the second Business Day preceding the effective date of any such Conversion a notice to the effect that the Authorized Group Representative on behalf of the Authority elects to rescind its election to make such Conversion. If the Authorized Group Representative rescinds its election to make such Conversion, then the Series 2008 Bonds of such Subseries shall bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of the Conversion. In any event, if notice of a Conversion has been mailed to the Holders of the Series 2008 Bonds of a Subseries and the Authorized Group Representative rescinds its

election to make such Conversion, then the Series 2008 Bonds of such Subseries shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the applicable Trust Agreement.

(c) Certain Additional Conditions. No Conversion from one Interest Rate Period to another shall take effect under the applicable Trust Agreement unless each of the following conditions, to the extent applicable, shall have been satisfied.

(i) With respect to the new Interest Rate Period, there shall be in effect a Liquidity Facility if and as required under the applicable Trust Agreement.

(ii) The Bond Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion dated the effective date of such Conversion.

(iii) In the case of any Conversion with respect to which there shall be no Liquidity Facility in effect to provide funds for the purchase of the Series 2008 Bonds of a Subseries on the Conversion Date, the remarketing proceeds available on the Conversion Date shall not be less than the amount required to purchase all of the Series 2008 Bonds of such Subseries at the Tender Price (not including any premium).

(iv) In the case of any Conversion of the Series 2008 Bonds of a Subseries from any Weekly Interest Rate Period, Daily Interest Rate Period, Long-Term Interest Rate Period or Short-Term Interest Rate Period to an ARS Rate Period, prior to the Conversion Date, the Borrower shall have appointed an Auction Agent and one or more Broker-Dealers and there shall have been executed and delivered an Auction Agent Agreement and one or more Broker-Dealer Agreements.

(d) Failure to Meet Conditions. In the event that any condition to the Conversion of the Series 2008 Bonds of a Subseries from a Long-Term Interest Rate Period or a Weekly Interest Rate Period shall not have been satisfied, then the Series 2008 Bonds of such Subseries shall bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of the Conversion. The Series 2008 Bonds of such Subseries shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the applicable Trust Agreement.

Redemption of Series 2008 Bonds

Optional Redemption. The Series 2008 Bonds may not be optionally redeemed prior to the date following the last day of the Initial Long-Term Interest Rate Period as shown on the cover page of this Official Statement.

In the event the Series 2008 Bonds are converted to bear interest at a Weekly Interest Rate, then the Series 2008 Bonds may be redeemed, in whole or in part from time to time, by the Authority, upon the direction of the Authorized Group Representative, on any Business Day, at a Redemption Price equal to 100% of the principal amount of the Series 2008 Bonds to be redeemed plus accrued interest to the redemption date.

Extraordinary Redemption. If the Borrower exercises its option to prepay the applicable Loan in full or in part under certain circumstances, including but not limited to damage or destruction of the Operating Assets or a change in the laws of the State or the United States that makes the applicable Agreement impossible or unreasonably burdensome to perform, all as more fully described in the applicable Agreement, the Series 2008 Bonds of the applicable series are required to be redeemed in whole if such Loan is prepaid in full, or in part if such Loan is prepaid in part, on any date, by the Authority, at the direction of the Authorized Group Representative, and in either event at a Redemption Price equal to 100% of the principal amount of the Series 2008 Bonds to be redeemed, plus accrued interest to the redemption date. See Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Series 2008A, Series 2008B and Series 2008C Loan Agreements—Prepayment of the Loan.”

Sinking Fund Requirements. (a) The Series 2008 Bonds are required to be redeemed on the May 15 (or April 15 with respect to the Series 2008C Bonds) in the years set forth below, to the extent of the Sinking Fund Requirement set forth below, upon payment of 100% of the principal amount of the Series 2008 Bonds to be redeemed, plus accrued interest to the redemption date.

Series 2008A-1 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008A-2 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008B-1 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008B-2 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008C-1 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008C-2 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008C-3 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

Series 2008C-4 Bonds

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
	\$		\$

* Maturity.

(b) Any Series 2008 Bonds which are Liquidity Facility Provider Bonds are subject to redemption in whole or in part prior to maturity as set forth in the Liquidity Facility for such Liquidity Facility Provider Bonds.

Selection of Series 2008 Bonds to Be Redeemed. If less than all the Outstanding Series 2008 Bonds of a Subseries shall be called for redemption, the Bond Trustee shall first select and call for redemption Liquidity Facility Provider Bonds (other than those held by an Inova Liquidity Provider) before any other Series 2008 Bonds of such Subseries are selected and called for redemption. If, following such selection, additional Series 2008 Bonds of such Subseries must be selected and called for redemption, the Bond Trustee shall select, or arrange for the selection of, Series 2008 Bonds of such Subseries as directed by the Authorized Group Representative, in portions thereof equal to Authorized Denominations. If there shall be called for redemption less than the principal amount of a Series 2008 Bond, the Authority shall execute and the Bond Trustee shall authenticate and deliver, upon surrender of such Series 2008 Bond, without charge to the Holder thereof, in exchange for the unredeemed principal amount of such Series 2008 Bond, at the option of such Holder, Series 2008 Bonds of such Subseries in any of the Authorized Denominations; provided, that if the Holder is a Securities Depository Nominee, the Securities Depository, in its discretion, (a) may surrender such Series 2008 Bond to the Bond Trustee and request that the Authority issue and the Bond Trustee authenticate a new Series 2008 Bond of such Subseries for the unredeemed portion of the principal amount of the Series 2008 Bond so surrendered or (b) shall make an appropriate notation on the Series 2008 Bond indicating the dates and amounts of such reduction in principal.

Redemption Notice. At least thirty (30) days but not more than sixty (60) days before the redemption date of any Series 2008 Bonds, whether such redemption shall be in whole or in part, the Bond Trustee shall cause a notice of any such redemption in the name of the Bond Trustee to be given by first class mail, postage prepaid, to all Holders owning Series 2008 Bonds to be redeemed in whole or in part. Failure to mail any such notice to any Holder or any defect in any notice so mailed shall not affect the validity of the proceedings for the redemption of the Series 2008 Bonds of any other Holders to whom notice was properly given. Each such notice shall set forth: the CUSIP numbers and bond certificate numbers of the Series 2008 Bonds to be redeemed, the interest rate of the Series 2008 Bonds to be redeemed, the date of issuance of the Series 2008 Bonds to be redeemed, the date fixed for redemption, the Redemption Price to be paid, the maturity of the Series 2008 Bonds to be redeemed and, in the case of Series 2008 Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed and, in the case that less than the entire principal amount of any one bond certificate is redeemed, the portion of the principal amount thereof to be redeemed, the address and phone number of Bond Trustee, the date of the redemption notice, that on the redemption date the Series 2008 Bonds called for redemption will be payable at the Designated Corporate Trust Office of the Bond Trustee set forth in such notice and that from that date interest will cease to accrue and be payable. If any Series 2008 Bond is to be redeemed in part only, the notice of redemption shall state also that on or after the redemption date, upon surrender of such Series 2008 Bond, a new Series 2008 Bond in principal amount equal to the unredeemed portion of such Series 2008 Bond will be issued.

Any notice of redemption (other than a mandatory sinking fund redemption) may state that the redemption to be effected is conditioned upon the receipt by the Bond Trustee on or prior to the redemption date of moneys sufficient to pay the principal of and premium, if any, and interest on the Series 2008 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 2008 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of and premium, if any, and interest on such Series 2008 Bonds are not received by the Bond Trustee on or prior to the redemption date, the redemption shall not be made and the Bond Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Calling for Redemption. On or before the date fixed for redemption, moneys or Defeasance Obligations, or a combination thereof, shall be deposited with the Bond Trustee to pay the principal of, the redemption premium, if any, and the interest accruing thereon to the redemption date of the Series 2008 Bonds called for redemption.

On the date fixed for redemption, notice having been given in the manner described above, the Series 2008 Bonds or portions thereof called for redemption shall be due and payable at the Redemption Price provided therefor, plus accrued interest to such date. If moneys or Defeasance Obligations, or a combination thereof, sufficient to pay the Redemption Price of the Series 2008 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, are held by the Bond Trustee in trust for the Holders of Series 2008 Bonds to be redeemed, interest on the Series 2008 Bonds called for redemption shall cease to accrue; such Series 2008 Bonds shall cease to be entitled to any benefits or security under the applicable Trust Agreement or to be deemed Outstanding; and the Holders of such Series 2008 Bonds shall have

no rights in respect thereof except to receive payment of the Redemption Price thereof, plus accrued interest to the date fixed for redemption. Series 2008 Bonds and portions of Series 2008 Bonds for which irrevocable instructions to pay on one or more specified dates or to call for redemption at the earliest redemption date have been given to the Bond Trustee in form satisfactory to it shall not thereafter be deemed to be Outstanding under such Trust Agreement and shall cease to be entitled to the security of or any rights under such Trust Agreement, other than rights to receive payment of the Redemption Price thereof and accrued interest thereon to the date fixed for redemption, to be given notice of redemption in the manner described in such Trust Agreement, and, to the extent provided in such Trust Agreement, to receive Series 2008 Bonds for any unredeemed portions of Series 2008 Bonds if moneys or Defeasance Obligations, or a combination thereof, sufficient to pay the Redemption Price of such Series 2008 Bonds or portions thereof, together with accrued interest thereon to the date upon which such Series 2008 Bonds are to be paid or redeemed, are held in separate accounts by the Bond Trustee in trust for the Holders of such Series 2008 Bonds.

Redemption of Portion of Series 2008 Bonds. If a portion of an Outstanding Series 2008 Bond shall be selected for redemption, the Holder thereof or such Holder's attorney or legal representative shall present and surrender such Series 2008 Bond to the Bond Trustee for payment of the principal amount thereof so called for redemption and the redemption premium, if any, on such principal amount, and the Authority shall execute and the Bond Trustee shall authenticate and deliver to or upon the order of such Holder or such Holder's legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Series 2008 Bond so surrendered, a Series 2008 Bond of the same maturity and bearing interest at the same rate; provided, however, that if the Holder is a Securities Depository Nominee, the Securities Depository, in its discretion, (a) may surrender such Series 2008 Bond to the Bond Trustee and request that the Authority and the Bond Trustee issue and authenticate a new Series 2008 Bond for the unredeemed portion of the principal amount of the Series 2008 Bond so surrendered or (b) shall make an appropriate notation on the Series 2008 Bond indicating the dates and amounts of such reduction in principal.

Use of Defeasance Obligations to Redeem Series 2008 Bonds. Subject to the provisions of the applicable Trust Agreement, Defeasance Obligations shall be deemed to be sufficient to pay or redeem Series 2008 Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due and without reinvestment, will be sufficient to pay on such date the Redemption Price of, and the interest accruing on, such Series 2008 Bonds to such date.

Tender and Purchase of Series 2008 Bonds

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Series 2008 Bonds of a Subseries will be subject to mandatory tender for purchase on the first day of each Interest Rate Period (or on the day which would have been the first day of an Interest Rate Period had one of the events specified in the applicable Trust Agreement not occurred which resulted in the interest rate on the Series 2008 Bonds of such Subseries not being converted) at the Tender Price, payable in immediately available funds. Pursuant to the applicable Trust Agreement, the Series 2008 Bonds of a Subseries shall be subject to mandatory tender for purchase pursuant on the first day following the last day of each Long-Term Interest

Rate Period. The Bond Trustee is required to give notice by mail to the Holders of the applicable Subseries of the Series 2008 Bonds subject to mandatory tender not less than 20 days preceding the mandatory tender date. For payment of the Tender Price on the Tender Date, the Series 2008 Bonds of such Subseries shall be delivered at or prior to 10:00 a.m., New York City time, on the Tender Date. If delivered after 10:00 a.m., New York City time, on the Tender Date, the Tender Price shall be paid on the next succeeding Business Day.

Mandatory Tender upon Termination, Replacement or Expiration of Liquidity Facility; Mandatory Standby Tender. The Series 2008 Bonds are subject to mandatory tender for purchase at a purchase price equal to the Tender Price upon notice from the Bond Trustee that the Series 2008 Bonds of a Subseries shall, on the date specified in such notice, cease to be subject to purchase pursuant to the Liquidity Facility then in effect as a result of (i) the termination, replacement or expiration of the term, as extended, of such Liquidity Facility, including but not limited to termination at the option of the Borrower in accordance with the terms of such Liquidity Facility, or (ii) the occurrence of a Mandatory Standby Tender. Such Series 2008 Bonds shall be purchased or deemed purchased at the Tender Price. “Mandatory Standby Tender” means the mandatory tender of Series 2008 Bonds upon receipt by the Bond Trustee of written notice from the Liquidity Facility Provider that an event with respect to the Liquidity Facility has occurred which requires or gives the Liquidity Facility Provider the option to terminate such Liquidity Facility upon notice. Mandatory Standby Tender shall not include circumstances where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

Such Series 2008 Bonds shall be subject to mandatory tender at the Tender Price on the fifth Business Day preceding any such expiration or termination of such Liquidity Facility without replacement by an Alternate Liquidity Facility or upon any termination thereof as a result of a Mandatory Standby Tender, and on the date of the replacement of a Liquidity Facility, in any case where an Alternate Liquidity Facility has been delivered to the Tender Agent. In the case of any replacement, the existing Liquidity Facility will be drawn to pay the Tender Price, if necessary, rather than the Alternate Liquidity Facility. No such mandatory tender will be effected upon the replacement of a Liquidity Facility in the case where the Liquidity Facility is failing to honor conforming draws.

The Bond Trustee is required to give notice by mail to the Holders of the affected Subseries of the Series 2008 Bonds secured by a Liquidity Facility (A) on or before the 20th day preceding the replacement, termination or expiration of such Liquidity Facility (except in the case of a termination resulting from an event resulting in the immediate termination or suspension of the obligation of the Liquidity Facility Provider to purchase the affected Subseries of the 2008 Bonds under the terms of any Liquidity Facility) in accordance with its terms, or (B) in the case of any Mandatory Standby Tender under such Liquidity Facility, as soon as reasonably possible, but no later than the Business Day following the receipt by the Bond Trustee of notice of the Mandatory Standby Tender. The notice must be accompanied by directions for the purchase of the affected Subseries of the Series 2008 Bonds. Among other things, the notice must state the date of the termination or expiration of such Liquidity Facility and in the case of the replacement of such Liquidity Facility the date of the proposed substitution of an Alternate Liquidity Facility (if any) and state that the affected Subseries of the Series 2008 Bonds is to be purchased as a result of such replacement, termination or expiration, including

any termination as a result of a Mandatory Standby Tender, and the date on which such purchase is to occur, and is to also provide any other information required in the notice to the Holders of the affected Subseries of the Series 2008 Bonds.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase on first day of an Interest Rate Period or mandatory tender for purchase upon termination, replacement or expiration of Liquidity Facility, the Bond Trustee shall give notice to the Holders pursuant to the provisions of the applicable Trust Agreement. Such notice shall state: (i) in the case of a mandatory tender for purchase on first day of an Interest Rate Period, the type of Interest Rate Period to commence on such mandatory purchase date; (ii) in the case of a mandatory tender for purchase upon termination, replacement or expiration of Liquidity Facility, that the Liquidity Facility will expire, terminate or be replaced and that the Series 2008 Bonds of such Subseries will no longer be payable from the Liquidity Facility then in effect and that any rating applicable to the Series 2008 Bonds of such Subseries may be reduced or withdrawn, (iii) that the Tender Price of the Series 2008 Bonds of such Subseries subject to mandatory tender for purchase shall be payable only upon surrender of the Series 2008 Bonds of such Subseries to the Tender Agent at its Designated Corporate Trust Office for delivery of Series 2008 Bonds; and (iv) if any Holder of a Series 2008 Bond of such Subseries subject to mandatory tender for purchase does not surrender such Series 2008 Bond to the Tender Agent for purchase on the mandatory Tender Date and the Tender Agent is holding sufficient money to effect such purchase, then such Bond shall be deemed to be an Undelivered Bond, that no interest shall accrue on such Bond on and after the mandatory Tender Date and that the Holder shall have no rights under the applicable Trust Agreement other than to receive payment of the Tender Price.

Purchase of Tendered Bonds. Payment of the Tender Price of the Series 2008 Bonds of a Subseries shall be made in immediately available funds by 3:00 p.m., New York City time, on the Tender Date upon delivery of the Series 2008 Bonds of such Subseries to the Tender Agent at its Designated Corporate Trust Office for the delivery of Series 2008 Bonds, at or prior to 12:00 Noon, New York City time, on the Tender Date. If, as a result of any Mandatory Standby Tender, expiration, termination with notice or replacement of a Liquidity Facility, any Series 2008 Bonds of a Subseries are no longer subject to purchase pursuant to a Liquidity Facility, the Tender Agent (upon receipt from the Holder thereof in exchange for payment of the Tender Price thereof) shall present Series 2008 Bonds of such Subseries to the Bond Trustee for notation of such fact thereon.

In the event any Subseries of the Series 2008 Bonds is converted to bear interest at a Weekly Interest Rate, the following provisions regarding optional tenders will apply:

Optional Tenders During Weekly Interest Rate Periods. The Holders of Series 2008 Bonds bearing interest at Weekly Interest Rates may elect to have their Series 2008 Bonds or portions thereof in Authorized Denominations purchased at the Tender Price of such Series 2008 Bonds (or portions), payable in immediately available funds, on any Business Day upon delivery of irrevocable written notice of tender to the Tender Agent, the Bond Trustee and the Remarketing Agent not later than 4:00 p.m., New York City time, on a Business Day not less than seven (7) days prior to the optional Tender Date.

Each notice of tender:

- (i) is required to be a written notice which is irrevocable, be delivered to the Tender Agent at its Designated Corporate Trust Office, to the Remarketing Agent and to the Bond Trustee at its Designated Corporate Trust Office;
- (ii) is required to state (A) the principal amount of such Series 2008 Bonds, (B) the principal amount of the Series 2008 Bonds to be purchased, and (C) the optional Tender Date on which such Series 2008 Bonds or portion thereof is to be purchased; and
- (iii) constitutes the irrevocable tender for purchase of such Series 2008 Bond with respect to which such notice has been given, regardless of whether such Series 2008 Bond is delivered to the Tender Agent for purchase on the relevant Tender Date.

For payment of the Tender Price on the Tender Date, Series 2008 Bonds must be delivered at or prior to 10:00 a.m., New York City time, on the Tender Date to the Tender Agent at its Designated Corporate Trust Office for delivery of Series 2008 Bonds accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Holder or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

During any Weekly Interest Rate Period for which the book-entry-only system is in effect, any Series 2008 Bonds bearing interest at the Weekly Interest Rate or portion thereof (provided that the principal amount of such Series 2008 Bonds to be purchased and the principal amount to be retained shall each be an Authorized Denomination) shall be purchased on the date specified in the notice referred to below at the Tender Price. The irrevocable written notice, executed by the Participant, shall be delivered on any Business Day by the Participant for such Series 2008 Bonds to the Tender Agent at its Designated Corporate Trust Office for the delivery of Series 2008 Bonds, to the Bond Trustee at its Designated Corporate Trust Office and to the Remarketing Agent. Such notice shall state the principal amount of such Series 2008 Bonds (or interest therein), the portion thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day at least seven days after the date of delivery of such notice to the Bond Trustee. Upon confirmation by the Securities Depository to the Bond Trustee that such Participant has an ownership interest in the Series 2008 Bonds at least equal to the amount of Series 2008 Bonds specified in such irrevocable written notice, payment of the Tender Price of such Series 2008 Bonds shall be made by 3:00 p.m., New York City time, or as soon as practicably possible thereafter, upon the receipt by the Bond Trustee of the Tender Price as set forth in the applicable Trust Agreement on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Series 2008 Bonds tendered for purchase to the account of the Tender Agent, or a Participant acting on behalf of such Tender Agent, at or prior to 10:00 a.m., New York City time, on the date specified in such notice.

Remarketing. Upon a mandatory tender (other than a Mandatory Standby Tender) or notice of tender for purchase of the Series 2008 Bonds of a Subseries, the Remarketing Agent shall offer for sale and use its best efforts to sell the Series 2008 Bonds of such Subseries (including Liquidity Facility Provider Bonds) on the same date designated for

purchase thereof in accordance with the applicable Trust Agreement and, if not remarketed on such date, thereafter until sold, at a price equal to par plus accrued interest, with such interest being calculated as if the Series 2008 Bonds of such Subseries were not Liquidity Facility Provider Bonds. The Series 2008 Bonds of a Subseries subject to a Mandatory Standby Tender shall not be remarketed unless the Series 2008 Bonds of such Subseries are converted to a Long-Term Interest Rate Period to their Maturity Date or to ARS, unless an Alternate Liquidity Facility is in full force and effect or unless the Liquidity Facility Provider has reinstated the Liquidity Facility with respect to which such Mandatory Standby Tender was declared and such Liquidity Facility is in full force and effect.

Sources and Deposits of Tender Price. Funds for the payment of the Tender Price shall be received by the Tender Agent from the following sources and used in the following order of priority: (i) proceeds of the sale of Series 2008 Bond remarketed and furnished to the Tender Agent by the Remarketing Agent; (ii) money furnished by the Liquidity Facility Provider to the Tender Agent; and (iii) money, if any, furnished by the Borrower. Failure to pay Tender Price is an Event of Default under the applicable Trust Agreement, and, therefore, the Series 2008 Bonds may be subject to acceleration.

Undelivered Bonds; Tender Price. If any Holder of a Series 2008 Bond who has given notice of tender of purchase pursuant to the applicable Trust Agreement or any Holder of a Series 2008 Bond subject to mandatory tender pursuant to the applicable Trust Agreement fails to deliver such Series 2008 Bond to the Tender Agent at the place on the Tender Date and at the time specified, or shall fail to deliver such Series 2008 Bond properly endorsed, such Series 2008 Bond shall constitute an Undelivered Bond. If a Series 2008 Bond purchased as provided in the applicable Trust Agreement is not presented to the Tender Agent, the Tender Agent shall segregate and hold uninvested the money for the Tender Price of such Series 2008 Bond in trust for the benefit of the former Holder of such Bond, who shall, except as provided in the following sentences of this paragraph, thereafter be restricted exclusively to such money for the satisfaction of any claim for the Tender Price. Any money which the Tender Agent segregates and holds in trust for the payment of the Tender Price of any Series 2008 Bond which remains unclaimed for five years after the date of purchase shall be paid to the Borrower. After the payment of such unclaimed money to the Borrower, the former Holder of such Bond shall look only to the Borrower for the payment thereof. The Borrower shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

Special Considerations Relating to the Series 2008 Bonds

The Remarketing Agent is Paid by the Borrower. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2008 Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the applicable Trust Agreement and the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Borrower and is paid by the Borrower for its services. As a result, the interests of the Remarketing Agent may differ from those of existing Holders and potential purchasers of Series 2008 Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2008 Bonds for its own account and, in its sole discretion, may routinely acquire such tendered Series 2008 Bonds in order to achieve a successful remarketing of the Series 2008 Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Series 2008 Bonds) or for other reasons; however, the Remarketing Agent is not obligated to purchase Series 2008 Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Series 2008 Bonds by routinely purchasing and selling Series 2008 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Series 2008 Bonds. The Remarketing Agent may also sell any Series 2008 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008 Bonds. The purchase of Series 2008 Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the Series 2008 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008 Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on any Date Including an Interest Rate Determination Date. Pursuant to the applicable Trust Agreement and the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Series 2008 Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable interest rate determination date. The interest rate will reflect, among other factors, the level of market demand for the Series 2008 Bonds (including whether the Remarketing Agent is willing to purchase Series 2008 Bonds for its own account). There may or may not be Series 2008 Bonds tendered and remarketed on an interest rate determination date, the Remarketing Agent may or may not be able to remarket any Series 2008 Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Series 2008 Bonds in the secondary market at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Series 2008 Bonds at the remarketing price. In the event a Remarketing Agent owns any Series 2008 Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Series 2008 Bonds on any date, including the interest rate determination date at a time other than when the rate is determined, at a discount to par to some investors.

The Ability to Sell the Bonds other than through the Tender Process May be Limited. The Remarketing Agent may buy and sell Series 2008 Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Holders that wish to tender their Series 2008 Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Series 2008 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their

Series 2008 Bonds other than by tendering the Series 2008 Bonds in accordance with the tender process.

The Remarketing Agent May Resign. The Remarketing Agent may resign, upon 30 days' prior written notice.

Provisions Relating to Book-Entry Only Bonds. Notwithstanding anything to the contrary contained in the applicable Trust Agreement, so long as a Securities Depository Nominee is the sole registered owner of the Series 2008 Bonds, all tenders and deliveries of Series 2008 Bonds under the provisions of such Trust Agreement shall be made pursuant to the Securities Depository's procedures as in effect from time to time and neither the Authority, the Obligated Group, the Tender Agent, any Paying Agent nor the Bond Trustee shall have any responsibility for or liability with respect to the implementation of such procedures.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2008 Bond certificate will be issued for each Subseries of the Series 2008 Bonds in the aggregate principal amount of such Subseries, and will be deposited with DTC.

DTC 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

All tenders (optional or mandatory) of Series 2008 Bonds and delivery of and payment for such tendered Series 2008 Bonds will be effected through the DTC system by or through the Beneficial Owner's Direct or Indirect Participant.

Beneficial Owners of the Series 2008 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the Series 2008 Bonds, such as redemptions, tenders, defaults and proposed amendments to the principal financing documents. Beneficial Owners of the Series 2008 Bonds may wish to ascertain that the nominee holding the Series 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

To facilitate subsequent transfers, all Series 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC's records reflect only the identity of the Direct and Indirect Participants to whose accounts such Series 2008 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2008 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (or any other DTC nominee) will consent or vote with respect to Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2008 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 Authority or the Bond Trustee, on the 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, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Authority 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 shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2008 Bonds purchased or tendered, through its Participant to the Tender Agent, and shall effect delivery of such Series 2008 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2008 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2008 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2008 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2008 Bonds to the Tender Agent's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the Obligated Group and the Underwriter believe to be reliable, but neither the Authority, the Obligated Group nor the Underwriter takes any responsibility for the accuracy thereof.

The Authority, the Bond Trustee and the Obligated Group cannot and do not give any assurances that Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the Series 2008 Bonds (i) payments of principal of, or interest and premium, if any, on the Series 2008 Bonds, (ii) confirmation of their ownership interests in the Series 2008 Bonds or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered

owner of the Series 2008 Bonds, or that they will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

NEITHER THE AUTHORITY, THE MEMBERS OF THE OBLIGATED GROUP NOR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2008 BONDS; (3) THE DELIVERY BY ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THE APPLICABLE TRUST AGREEMENT; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2008 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Transfer and Exchange

The transfer of any Series 2008 Bond may be registered only upon the books kept for the registration and registration of transfer of Series 2008 Bonds upon surrender thereof to the Bond Trustee together with an assignment duly executed by the registered owner or such owner's attorney or legal representative in such form as shall be satisfactory to the Bond Trustee. Upon any such registration of transfer, the Authority shall execute and the Bond Trustee shall authenticate and deliver in exchange for such Series 2008 Bond a new registered Series 2008 Bond or Series 2008 Bonds, registered in the name of the transferee, of any denomination or denominations authorized by the applicable Trust Agreement in the aggregate principal amount equal to the principal amount of such Series 2008 Bond surrendered or exchanged, of the same series and maturity and bearing interest at the same rate.

Series 2008 Bonds, upon surrender thereof at the Designated Corporate Trust Office of the Bond Trustee, together with an assignment duly executed by the registered owner or his attorney or legal representative in such form as shall be satisfactory to the Bond Trustee, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Series 2008 Bonds of the same series and maturity, of any denomination or denominations authorized by the applicable Trust Agreement, bearing interest at the same rate, and in the same form as the Series 2008 Bonds surrendered for exchange.

No service charge shall be made for any registration, transfer or exchange of Series 2008 Bonds, but the Authority and the Bond Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Series 2008 Bonds. Neither the Authority nor the Bond Trustee shall be required (i) to issue, transfer or exchange Series 2008 Bonds during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of Series 2008

Bonds and ending at the close of business on the day of such mailing or (ii) to transfer or exchange any Series 2008 Bond so selected for redemption in whole or in part.

SECURITY FOR THE SERIES 2008 BONDS

General

The Series 2008 Bonds are limited obligations of the Authority payable from payments to be made by one or more of Inova, the Corporation, IAH, Loudoun and Loudoun Hospital pursuant to the applicable Series 2008 Obligation issued under the Master Indenture, from payments made by the Borrower pursuant to the applicable Agreement and from amounts held by the Bond Trustee in certain funds and accounts under the applicable Trust Agreement.

The Series 2008 Obligations which secure the Series 2008 Bonds are unsecured, joint and several, general obligations of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services, as the current Members of the Obligated Group under the Master Indenture. The Master Indenture permits other entities, upon compliance with certain conditions, to become Members of the Obligated Group and to issue Obligations thereunder. Each Obligation will be an unsecured, joint and several, general obligation of the Members of the Obligated Group. Each Member of the Obligated Group will, subject to the right of such Member to withdraw from the Obligated Group under certain conditions, jointly and severally covenant to make any and all payments promptly on all Obligations heretofore and hereafter issued under the Master Indenture, including the Series 2008 Obligations, according to the terms thereof. See Appendix A—“Inova Health System Foundation and the Members of the Obligated Group - Long-Term Debt and Guaranteed Indebtedness.” See also Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture—Persons Becoming Members of the Obligated Group” and “—Withdrawal from the Obligated Group.”

The Trust Agreements

Each series of the Series 2008 Bonds is to be issued pursuant to the applicable Trust Agreement and will be equally and ratably secured thereunder. As security for each series of the Series 2008 Bonds, the Authority will assign to the Bond Trustee (a) all amounts on deposit in certain funds and accounts established under the applicable Trust Agreement and all income derived from the investment of such amounts, (b) all of its rights, title and interest in and to the applicable Agreement, including all its rights, title and interest to receive Loan Repayments thereunder (subject to reservation of the Authority’s rights thereunder to receive payments of administrative fees and expenses and indemnification against liabilities), and (c) all of its rights, title and interest in and to the applicable Series 2008 Obligation. Each Trust Agreement provides that the applicable series of the Series 2008 Bonds shall be limited obligations of the Authority, payable solely from and secured solely by the foregoing sources. Each series of the Series 2008 Bonds is a separate series payable from a separate trust estate, and the series of the Series 2008 Bonds are not cross-collateralized.

The Agreements

Pursuant to each Agreement, in consideration of the Authority's loan of the proceeds of the applicable series of the Series 2008 Bonds, the Borrower agrees to pay amounts sufficient, subject to certain credits as provided for in the applicable Trust Agreement, to provide for the timely payment of all principal of, redemption premium, if any, and interest on such Series 2008 Bonds and to perform certain other obligations set forth therein. Each Agreement constitutes the general unsecured obligation of the Borrower. Credit will be given against payments due under the applicable Series 2008 Obligation for the Loan Repayments made by the Borrower under the applicable Agreement.

The Series 2008 Obligations

Upon the issuance of the Series 2008 Bonds, one or more of the Members of the Obligated Group will deliver each of the Series 2008 Obligations in a principal amount equal to the aggregate principal amount of the applicable series of the Series 2008 Bonds. The Series 2008 Obligations will be payable on a parity with the Prior Obligations (defined below) and any Obligations issued after the Series 2008 Obligations in accordance with the terms of the Master Indenture. See "INTRODUCTION—Additional Indebtedness."

Prior Obligations

The Obligated Group has issued Obligations which are currently Outstanding under the Master Indenture to evidence the indebtedness represented by the Series 1988 Bonds, the Series 1993 Bonds, the Series 1998 Bonds, the Series 2000 Bonds, and the Series 2005A and C Bonds (the "Prior Obligations"). Each of the Series 2008 Obligations will evidence the payment obligations of the Borrower under the applicable Agreement. See "INTRODUCTION—Additional Indebtedness."

The Series 2008 Obligations and the Prior Obligations are unsecured, joint and several, general obligations of the Obligated Group. No interest in the Property or revenues of the Obligated Group is pledged to secure such Obligations. Other Obligations may be issued to the extent permitted by and under the conditions set forth in the Master Indenture. The Master Indenture also includes covenants of the Obligated Group concerning, among other things, limits on Additional Indebtedness, liens on Property and transfers of Property to other entities, admission of entities as Members of the Obligated Group and withdrawal of Members from the Obligated Group. For further information concerning certain covenants included in the Master Indenture, see Appendix C—"Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture." The Master Indenture provides that certain of these covenants may be amended without consent of the Holders of Obligations if the Long-Term Debt Service Coverage Ratio for the Combined Group (described below) for the Fiscal Year preceding such amendment was at least 1.75 or the Obligated Group delivers credit enhancement to secure the Series 2008 Bonds and any other Related Bonds secured by Obligations such that the ratings thereon shall not be lowered or withdrawn; however, this amendment provision may not be used to change the joint and several liability of the Obligated Group on the Obligations, the provisions permitting creation of certain liens on the Property of the Obligated Group, the tests for admission to or withdrawal from the Obligated

Group or Combined Group or to reduce any financial covenant or test for the Long-Term Debt Service Coverage Ratio to be less than 1.10. See Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture—Supplements Not Requiring Consent of Holders.”

Substitution of Security

The Master Indenture provides that the Bond Trustee will surrender each of the Series 2008 Obligations upon presentation of the following to the Bond Trustee:

(i) an original replacement note or similar obligation issued by a new obligated group (the “Substitute Obligation”) under and pursuant to a master trust indenture (the “Replacement Master Indenture”) executed by the Members of the Obligated Group and certain other parties named therein (collectively, the “New Group”) and an independent corporate trustee which may be the Master Trustee or the Bond Trustee (the “New Trustee”) meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture, which Substitute Obligation has been duly authenticated by the New Trustee;

(ii) the Replacement Master Indenture containing the agreement of each member of the New Group (A) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (B) unconditionally and irrevocably (subject to the right of such person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Indenture) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the Replacement Master Indenture at the times and in the amounts provided in each such note or obligation;

(iii) an Opinion of Counsel addressed to the Bond Trustee and the Obligated Group Representative to the effect that: (A) the Replacement Master Indenture has been duly authorized, executed and delivered by each member of the New Group, the Substitute Obligation has been duly authorized, executed and delivered by the Obligated Group, and the Replacement Master Indenture and the Substitute Obligation are each a legal, valid and binding obligation of each member of the New Group, subject in each case to the customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors’ rights and application of general principles of equity; (B) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Indenture have been complied with and satisfied; and (C) registration of the Substitute Obligation under the Securities Act of 1933, as amended, is not required or, if such registration is required, that the applicable registration provisions of such act have been complied with;

(iv) an Officer’s Certificate certifying that (A) the New Group could, after giving effect to the issuance of the Substitute Obligation, meet the conditions of the Master Indenture for the incurrence of one dollar of additional Long-Term Indebtedness, as demonstrated in such certificate, (B) the unrestricted fund balance of the New Group, giving effect to the proposed transaction, is not less than 90% of the unrestricted fund balance of the Obligated Group immediately prior to the proposed transaction, and (C) giving effect to the proposed transaction,

the New Group would not be in default under the provisions of the Master Indenture governing the creation of Liens;

(v) an Opinion of Bond Counsel to the effect that the surrender of the Obligation and the acceptance by the Bond Trustee of the Substitute Obligation will not adversely affect the validity of the Series 2008 Bonds or other Related Bonds issued for the benefit of the Obligated Group or any exemption for the purposes of federal income taxation to which interest on the Series 2008 Bonds and such other Related Bonds would otherwise be entitled;

(vi) an original executed counterpart of the Replacement Master Indenture;

(vii) evidence that (A) (1) written notice of such substitution, together with a copy of such Replacement Master Indenture, has been given by the New Group to each rating agency then maintaining a rating on any Obligation or any Related Bonds secured by an Obligation, including the Series 2008 Bonds, and (2) the then current rating on such Related Bonds, including the Series 2008 Bonds, shall not be withdrawn or reduced by any such rating agency as a result of such substitution, as evidenced in written correspondence from such rating agency or (B) certain enumerated sections of the Master Indenture are incorporated in the Replacement Master Indenture (for a list of such sections, see Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture—Replacement Master Indenture”); and

(viii) such other opinions and certificates as the Related Bond Trustee or the bond insurer or credit facility provider, if any, may reasonably require, together with such reasonable indemnities as the Related Bond Trustee or the bond insurer or credit facility provider, if any, may request.

Liquidity Facility

Inova will enter into a separate Liquidity Agreement, each dated as of April 1, 2008, with U.S. Bank National Association, as tender agent (the “Tender Agent”), relating to each Subseries of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds (each such Liquidity Agreement, a “Liquidity Facility”). The Liquidity Facility constitutes an obligation of Inova to pay the Tender Price of the Series 2008 Bonds tendered on the Initial Mandatory Tender Date as set forth on the cover (and the Tender Price due upon a mandatory tender or optional tender in the event the Series 2008 Bonds are converted to a Weekly Interest Rate following the Initial Long-Term Interest Rate Period), if there are insufficient funds available from remarketing proceeds to pay such Tender Price.

Failure to pay the Tender Price is an Event of Default under the applicable Trust Agreement, and, therefore, the Series 2008 Bonds may be subject to acceleration.

The Combined Group

The Members of the Obligated Group will be the sole entities responsible for the payment of Obligations (including the Series 2008 Obligations) and for the performance of the other covenants and agreements set forth in the Master Indenture. Subject to certain conditions, the Master Indenture permits Members of the Obligated Group to designate certain of their

respective Affiliates as Restricted Affiliates for the purposes of the Master Indenture. Such Restricted Affiliates, together with the Obligated Group, are referred to collectively as the “Combined Group.” The income and expenses of any Restricted Affiliates are taken into account in determining compliance with the financial covenants under the Master Indenture, including the Long-Term Debt Service Coverage Ratio, since these covenants are measured on the basis of the Combined Group. The Restricted Affiliates are not liable under the Master Indenture, and there is no recourse against the Restricted Affiliates or their assets in the event of a default. The Members of the Obligated Group will, however, be obligated to cause their respective Restricted Affiliates to transfer funds or other assets to the Member of the Obligated Group that is its sole member, beneficiary or controlling person, to the extent permitted by law, so that the Obligated Group can satisfy its debt service requirements applicable to any Obligation. There are no Restricted Affiliates at the present time, nor is there any present intention to cause or permit any entity to become a Restricted Affiliate.

Additional Covenants of the Obligated Group

Pursuant to the Master Indenture, the Members of the Obligated Group have agreed with the Master Trustee to subject themselves to certain operational and financial restrictions contained therein. See Appendix C—“Definitions of Certain Terms and Summaries of Principal Documents—Summary of Certain Provisions of the Master Indenture.”

PLAN OF FINANCING

Plan of Refunding

The proceeds of the Series 2008A Bonds will be loaned to the Corporation and IAH pursuant to the applicable Agreement and, together with other available funds, will be used for the purpose of (i) currently refunding the outstanding Series 2005B Bonds and (ii) paying a portion of the costs of issuance of the Series 2008A Bonds. The proceeds of the Series 2005B Bonds were used to pay for certain capital improvements and equipment at Inova Alexandria Hospital, Inova Fairfax Hospital, Inova Fair Oaks Hospital and Inova Mount Vernon Hospital. The Series 2005B Bonds will be defeased upon the issuance of the Series 2008A Bonds.

Series 2005B Bonds

Subseries	Maturities	Principal Amount Outstanding	Interest Rates	Redemption Date	Redemption Price	CUSIP Number
2005B-1	May 15, 2035	\$34,975,000	ARS	April 24, 2008	100%	303823 FP8
2005B-2	May 15, 2035	\$34,975,000	ARS	April 25, 2008	100%	303823 FQ6

The proceeds of the Series 2008B Bonds will be loaned to Inova, Loudoun and Loudoun Hospital pursuant to the applicable Agreement and, together with other available funds, will be used for the purpose of (i) currently refunding the outstanding Series 2005D Bonds and (ii) paying a portion of the costs of issuance of the Series 2008B Bonds. The proceeds of the Series 2005D Bonds were used to pay for the refinancing of certain capital improvements and equipment at Loudoun Hospital Center initially financed by the Industrial Development Authority of Loudoun County, Virginia Hospital Revenue Bonds (Loudoun Hospital Center), Series 1995 and the Industrial Development Authority of Loudoun County, Virginia Hospital Revenue Bonds (Loudoun Hospital Center), Series 2002A. The Series 2005D Bonds will be defeased upon the issuance of the Series 2008B Bonds.

Series 2005D Bonds

Subseries	Maturities	Principal Amount Outstanding	Interest Rates	Redemption Date	Redemption Price	CUSIP Number
2005D-1	May 15, 2026	\$34,850,000	ARS	April 21, 2008	100%	303823 FT0
2005D-2	May 15, 2026	\$34,850,000	ARS	April 22, 2008	100%	303823 FU7

The proceeds of the Series 2008C Bonds will be loaned to the Corporation pursuant to the applicable Agreement and, together with other available funds, will be used for the purpose of (i) currently refunding the outstanding Series 2005E Bonds and (ii) paying a portion of the costs of issuance of the Series 2008C Bonds. The proceeds of the Series 2005E Bonds were used to refund the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Bonds (Inova Health System Project), Series 2001 (the “Series 2001 Bonds”). The proceeds of the Series 2001 Bonds were used to pay for certain capital improvements and equipment at Inova Fairfax Hospital, Inova Fair Oaks Hospital, and Inova Mount Vernon Hospital. The Series 2005E Bonds will be defeased upon the issuance of the Series 2008C Bonds.

Series 2005E Bonds

Subseries	Maturities	Principal Amount Outstanding	Interest Rates	Redemption Date	Redemption Price	CUSIP Number
2005E-1	April 15, 2035	\$51,300,000	ARS	April 23, 2008	100%	303823 FV5
2005E-2	April 15, 2035	\$51,300,000	ARS	April 24, 2008	100%	303823 FW3
2005E-3	April 15, 2035	\$51,300,000	ARS	April 25, 2008	100%	303823 FX1
2005E-4	April 15, 2035	\$51,300,000	ARS	April 21, 2008	100%	303823 FY9

Other Financing Plans

None of the Members of the Obligated Group expects to incur other long-term indebtedness in 2008. See Appendix A - “Inova Health System Foundation and the Members of the Obligated Group - Building Programs and Future Projects” hereto.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2008 Bonds are presently anticipated to be applied as set forth below.

Sources of Funds:

Series 2008 Bonds.....	\$
Other Sources.....	<u> </u>
Total Sources	<u>\$</u>

Uses of Funds:

Refunding of the Series 2005B Bonds.....	
Refunding of the Series 2005D Bonds.....	
Refunding of the Series 2005E Bonds	
Costs of Issuance ⁽¹⁾	<u> </u>
Total Uses	<u>\$</u>

⁽¹⁾ Including Underwriter's discount, fees and expenses of the Bond Trustee and the Master Trustee, the Remarketing Agent, and the Tender Agent, rating agency fees and fees and expenses of the Authority and its counsel, counsel to the Members of the Obligated Group, Bond Counsel and auditors to the Members of the Obligated Group.

ESTIMATED DEBT SERVICE REQUIREMENTS

The following table sets forth for each year ending December 31 the estimated annual debt service requirements payable by the Members of the Obligated Group, jointly or severally, upon issuance of the Series 2008 Bonds, with respect to (i) the Series 2008 Bonds, (ii) the Series 1988 Bonds, (iii) the Series 1993 Bonds, (iv) the Series 1998 Bonds, (v) the Series 2000 Bonds and (vi) the Series 2005A and C Bonds. The following table does not reflect payments due through December 31, 2008 or that might in the future be required under any contingent obligations of the Members of the Obligated Group and certain miscellaneous minor indebtedness.

Year Ending Dec. 31	Principal of Series 2008 Bonds	Interest on Series 2008 Bonds	Total Debt Service on Series 2008 Bonds	Total Debt Service on Other Obligated Group Debt*	Total Debt Service*
2008	\$	\$	\$	33,577,623	\$
2009				33,741,687	
2010				33,852,891	
2011				33,696,295	
2012				33,871,354	
2013				33,679,414	
2014				33,599,963	
2015				33,782,693	
2016				33,630,019	
2017				33,818,873	
2018				35,281,712	
2019				33,734,522	
2020				33,650,140	
2021				33,752,582	
2022				33,726,282	
2023				34,442,708	
2024				34,683,753	
2025				34,817,915	
2026				19,892,818	
2027				18,792,652	
2028				18,542,342	
2029				18,612,989	
2030				18,499,715	
2031				13,427,157	
2032				13,514,405	
2033				13,164,545	
2034				12,891,077	
2035				12,902,804	
Total	\$	\$	\$	\$771,580,928	\$

* Represents debt service on the Series 1988 Bonds, the Series 1993 Bonds, the Series 1998 Bonds, the Series 2000 Bonds and the Series 2005A and C Bonds. Assumes bonds bear interest at the actual or expected swap

rate. This table does not include an additional bank obligation of one member of the Obligated Group outstanding in the principal amount of \$5,674,000.

BONDHOLDERS' RISKS

The discussion herein of risks to the owners of the Series 2008 Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters which could affect payment on the Series 2008 Bonds. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the Designated Corporate Trust Office of the Bond Trustee.

Payment of Debt Service

Except to the extent otherwise noted herein, each series of the Series 2008 Bonds is payable solely from the payments on the applicable Series 2008 Obligation to be made by the Members of the Obligated Group under the Master Indenture and by one or more of Inova, the Corporation, IAH, Loudoun and Loudoun Hospital under the applicable Agreement. No representation or assurance can be made that revenues will be realized by the present or future Members of the Obligated Group in amounts sufficient to pay when due principal of, premium, if any, and interest on the Series 2008 Bonds. The ability of the Members of the Obligated Group to comply with their respective obligations under the Agreements or the Series 2008 Obligations, including providing to the Authority amounts sufficient for the payment when due of the principal of, premium, if any, and interest on the Series 2008 Bonds, depends primarily upon the ability of the Members of the Obligated Group to obtain sufficient revenues from their operations to meet such obligations. These revenues are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed below should be considered in evaluating the ability of the Members of the Obligated Group to make payments in amounts sufficient to meet their obligations under the Agreements and the Series 2008 Obligations. This discussion is not and is not intended to be exhaustive.

The ability of the Members of the Obligated Group to make required payments on the Series 2008 Obligations is subject to, among other things, the capabilities of the management of the Members of the Obligated Group and future economic and other conditions, which are unpredictable and which may affect revenues and, in turn, the payment of principal of, premium, if any, and interest on the Series 2008 Bonds. Future revenues and expenses of the Obligated Group will be affected by events and conditions relating generally to, among other things, demand for the Obligated Group's services, its ability to provide the services required by patients, physicians' relationships with the Obligated Group, management capabilities, the design and success of the Obligated Group's strategic plans, economic developments in the service area, the Obligated Group's ability to control expenses, maintenance by the Members of the Obligated Group of relationships with HMOs and PPOs, competition, rates, costs, third-party reimbursement, legislation and governmental regulation. Federal and state funding statutes and regulations are the subject of intense legislative debate and are likely to change, and unanticipated events and circumstances may occur which cause variations from the Obligated

Group's expectations, and the variations may be material. THERE CAN BE NO ASSURANCE THAT THE REVENUES OF THE MEMBERS OF THE OBLIGATED GROUP OR UTILIZATION OF THEIR FACILITIES WILL BE SUFFICIENT TO ENABLE THE MEMBERS OF THE OBLIGATED GROUP TO MAKE SUCH PAYMENTS.

None of the provisions, covenants, terms and conditions of the Master Indenture or the Agreements will afford the Bond Trustee any assurance that the principal and interest owing under the Series 2008 Obligations will be paid as and when due, if the financial condition of the Obligated Group and any future Members of the Obligated Group deteriorates to a point where the Members of the Obligated Group are unable to pay their debts as they come due, or otherwise become insolvent.

Managed Care/Commercial Insurers

Members of the Obligated Group contract with preferred provider and health maintenance organizations, commercial insurers, and other third-party payors. Generally, a preferred provider organization ("PPO") is a group of healthcare providers who have contractual arrangements with third-party payors, including insurers, to provide specific or full-scope services at a negotiated price to a defined group of patients. A health maintenance organization ("HMO"), on the other hand, is responsible for and directly assumes the financial risk of providing healthcare services to its members in return for a set prepaid monthly premium. The Members of the Obligated Group also contract with commercial insurers to provide patient services to insureds. Contracts with these payors are becoming increasingly similar to contracts with managed care plans, and frequently reflect negotiated discounted rates and impose utilization controls. For additional information on the revenues which the Members of the Obligated Group derive from managed care, see Appendix A—"Inova Health System Foundation and the Members of the Obligated Group—Selected Operational and Utilization Information" and "—Third-Party Reimbursement and Sources of Revenue."

Most PPOs, HMOs and insurers currently pay hospitals on a discounted fee-for-service basis, on a discounted fixed rate per day of care, on a fixed rate per case based upon the type of admission or at a capitated rate based upon the number of members of the HMO (regardless of the number and types of admissions and care provided). The discounts, fixed rates or capitated rates paid by HMOs, PPOs and insurers may result in payments at less than actual cost, and the volume of patients and the types of required medical services directed to a hospital under an HMO, PPO and/or insurer contract may vary significantly from the expectations of the Members of the Obligated Group. Therefore, the future financial consequences of such contracts cannot be predicted with certainty and may be different from the current period or past periods.

Failure to enter into and maintain PPO, HMO and/or insurer contracts could have the effect of reducing the patient base and/or revenue of the Members of the Obligated Group. On the other hand, participation may maintain or increase the patient base, but may result in reduced payments and lower net income. Members of the Obligated Group have contracted with a variety of these programs, but there is no assurance that the Members of the Obligated Group will maintain these contracts at rates providing a favorable return or obtain other similar contracts in the future.

Managed Care Liability

The growth of the managed care industry has given way to new liability concerns for physicians and hospitals involved in managed care networks. Liability in the managed care context is most likely to occur when (i) treatment is denied outright; (ii) alternative treatment is recommended but not provided; (iii) treatment is found to be “medically unnecessary”; or (iv) access to the appeals or grievance procedure is denied or otherwise restricted. To the extent that the Members of the Obligated Group are involved in managed care contracting, they may be exposed to additional liability based on corporate negligence.

Alternative Delivery Systems

The Members of the Obligated Group face increased competition from other hospital facilities and integrated healthcare delivery systems in their service areas, from HMOs and from other entities providing healthcare services to the population which the Members of the Obligated Group presently serve. The Members of the Obligated Group do, and in the future will, face increased competition from other hospitals and skilled nursing facilities and from other healthcare providers that offer comparable healthcare services to the population which each of the members presently serves. This competition could include the establishment, construction or renovation of hospitals, skilled nursing facilities, HMOs, ambulatory surgical centers, private laboratories and radiological services.

Increased competition also has resulted from: (i) the development of alternative healthcare delivery systems (such as HMOs and PPOs) in the service areas of the Members of the Obligated Group, competition with other hospitals to provide healthcare services to enrollees of HMOs and PPOs, and competition for patients with delivery systems of HMOs and PPOs providing services at their own or other facilities; (ii) competition for enrollees between traditional insurers, whose patients generally have a free choice of hospitals, and HMOs and PPOs, which may own their own hospitals or substantially restrict the hospitals and physicians from which their enrollees can receive services; (iii) competition for patients between physicians, who generally use hospitals, and non-physician practitioners such as nurse-midwives, nurse practitioners, chiropractors, physical and occupational therapists and others, who may not generally use hospitals; and (iv) competition from nursing homes, home health agencies, ambulatory care facilities, ambulatory surgical centers, rehabilitation and therapy centers, physician group practices, and other nonhospital providers which provide services for which patients currently rely on hospitals.

Virginia Regulatory Matters

Quality Improvement Organizations. To participate in the federal Medicare Program, certain Members of the Obligated Group are required to be reviewed by a utilization and quality control quality improvement organization (“QRO”). Unlike previous review procedures by other professional standards review organizations, QRO reviews may not be delegated to hospitals, and certain non-emergency procedures are subject to preadmission review. The QRO may recommend denial of payment, and in certain circumstances, suspension or termination of participation in Medicare, for unnecessary, substandard or inappropriate medical care. In Virginia, the QRO is the Virginia Health Quality Center (“VHQC”). The

VHQC is organized as a private corporation and performs its Medicare review activities pursuant to a contract with Centers for Medicare and Medicaid Services (“CMS,” formerly known as the Health Care Financing Administration, “HCFA”), which requires the VHQC, among other things, to reduce overutilization by Medicare patients and decrease costs. Private employers and other third-party payors, including the Virginia Department of Medical Assistance Services (“DMAS”), may also apply to contract with the VHQC to screen admissions and review discharges of subscribers to their health benefits plans in an effort to contain costs. VHQC review may decrease admissions and could result in nonpayment or sanction for some admissions and procedures subsequently disapproved by the VHQC.

State Regulation. The Members of the Obligated Group and their operations are subject to regulation and certification by various state and local government agencies and by statutes enacted by the General Assembly of the Commonwealth of Virginia. No assurances can be given as to the nature or effect on future operations of the Members of the Obligated Group arising out of existing laws, regulations or standards for certification or licensure, or out of any future changes in such laws, regulations or standards.

Legislation is periodically introduced in the Virginia General Assembly which could result in changes to hospital revenues, reimbursements and costs and charges, including additional surcharges to patients to whom the Members of the Obligated Group render services. Changes in the governmental regulations concerning the treatment of patients, the referral of patients and services, certificate of public need requirements and regulations, licensure, medical malpractice damage limitations and a tax-exempt organization’s qualification for tax-exempt treatment under Virginia law all could have a significant effect on the Members of the Obligated Group.

Utilization and Financial Reporting Requirements. Virginia requires the submission of certain utilization and financial data to Virginia Health Information, Inc. (“VHI”), a non-profit health data organization. By statute, VHI is required to disseminate healthcare cost and quality information designed to assist businesses and consumers in purchasing healthcare services. Inova submits the year end audited financial statements, other requested financial information and patient level data as required.

Disposition of Assets by Non-Profit Healthcare Entities. Any non-profit tax-exempt hospital, HMO or health service plan is required by statute to provide the Virginia Attorney General at least sixty days prior notice of its intent to transfer control of all or substantially all of its assets so that the Attorney General may exercise common law and statutory authority over such transaction. The precise scope of this statute or its application to the Members of the Obligated Group cannot be determined at this time.

Certificate of Public Need. The ability of the Members of the Obligated Group to make certain capital expenditures, acquire certain equipment, increase their licensed bed capacity or introduce certain clinical health services is restricted by the requirement that hospitals obtain a Certificate of Public Need (“COPN”). The Commonwealth may enjoin any project which is constructed, undertaken or commenced without a COPN or enjoin the admission of patients to, or the provision of services through, such project. COPNs may be granted conditionally upon agreement to certain charity care and other conditions which may vary with each project; these

conditions may result in lower net revenues to healthcare providers such as the Corporation. Additionally, a civil penalty of \$100 per violation per day may be assessed against any person who willfully violates certain regulatory provisions limiting the schedule for completion of any project and maximum capital expenditures.

COPN review is required prior to expansions in licensed bed inventory or operating room inventory, initiation of certain specialty clinical services (such as cardiac catheterization, computed tomographic scanning, gamma knife surgery, lithotripsy, magnetic resonance imaging, magnetic source imaging, open heart surgery, position emission tomography, magnetic radiation therapy), or equipment, as well as capital expenditures of \$15,000,000 or more. Effective July 1, 2008, the capital expenditure threshold may be adjusted annual thereafter to reflect inflation.

The future of the Commonwealth's certificate of public need program is not certain. Nevertheless, any changes to the program may significantly affect the Obligated Group's financial condition. Any additional regulation could make it more difficult and costly for Members of the Obligated Group to enhance their services and facilities. Any additional deregulation could result in the entrance of new competitors, or the enhancement of services and facilities by existing competitors, in the service area in which the Members of the Obligated Group compete. Such additional competition could affect adversely the ability of the Obligated Group to generate revenues sufficient to pay debt service on the Series 2008 Bonds.

Virginia Indigent Health Care Trust Fund. The Virginia Indigent Health Care Trust Fund (the "Fund") was created by the Virginia General Assembly to provide for indigent care from funds appropriated by the General Assembly and amounts collected from hospitals that are considered to be providing disproportionately low amounts of charity care. The amounts of a hospital's mandatory payments to the Fund is determined pursuant to the legislation creating the Fund, although a hospital's annual contribution cannot exceed 6.25% of the hospital's "positive operating margin." Amounts in the Fund are distributed to hospitals deemed to be providing disproportionately high amounts of charity care. Members of the Obligated Group have received distributions from the Fund in every year since inception. The amount of future assessments or distributions cannot be predicted at this time.

Future Legislation. Future legislation, regulation, or other actions by the Virginia General Assembly may impose requirements, limitations or costs which could adversely affect the Members of the Obligated Group.

Physician Contracting and Relations

Medical staff bylaws, rules and policies establish the means by which physicians become members of a facility's medical staff, and thereby obtain the right to exercise certain clinical privileges at a hospital. They also describe the terms of continued medical staff membership and clinical privileges, as well as the criteria and procedures by which a physician may have his or her privileges or membership denied or revoked. In all such cases, the procedures used by the medical staff, all of which require governing body approval, are subject to certain due process rights and limitations. Physicians who have medical staff membership or certain clinical privileges denied, suspended or revoked may file legal actions against hospitals and medical

staffs. Depending on the claims asserted, such actions could result in substantial uninsured damages to a hospital. In addition, failure of the hospital's governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals are subject to such risks.

Certain contracts which are entered into with physicians or physician groups create a preferred relationship whereby the physicians hold an exclusive right to provide specific services to or at the hospital. With the increased competition among healthcare providers and the increasingly frequent application of antitrust principles in healthcare, such exclusive relationships are subject to challenges, generally by competing physicians. As of the date hereof, the Members of the Obligated Group are not aware of any specific conditions or controversies which they believe would lead to the loss of an exclusive contractual relationship, or damages related thereto, which would have a materially adverse effect on the operations or financial condition of the Members of the Obligated Group. Physician contracting arrangements must be in compliance with both state and federal fraud and abuse and referral laws. See "Federal and State Regulation of the Healthcare Industry" herein. Violations of these laws can result in civil and criminal penalties as well as government program exclusions.

Environmental Laws and Regulations

Healthcare systems are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances located on the property, including any such substances that migrate off the property. Typical healthcare system operations include, without limitation, the handling, use, storage, transportation, disposal and/or discharge of medical and/or other hazardous materials, wastes, pollutants or contaminants. As a result, healthcare system operations are particularly susceptible to the risks associated with compliance with such laws and regulations. Failure to comply may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, penalties or other government agency actions. At the present time, the Members of the Obligated Group are not aware of any pending or threatened environmental claim, investigation or enforcement action which, if determined adversely to a Member of the Obligated Group, would have material adverse consequences.

Matters Relating to Security for the Series 2008 Bonds

(1) The remedies available to the Bond Trustee, the Master Trustee, the Authority or the owners of the Series 2008 Bonds upon an event of default under the Master Indenture, the Agreements or the Series 2008 Obligations are in many respects dependent upon judicial actions which are often subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Series 2008 Bonds and the delivery of the Master Indenture, the Agreements and the Series 2008 Obligations will be qualified as to the enforceability of the various legal instruments by limitations imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally. The enforceability of the Master Indenture, the Agreements and the Series

2008 Bonds is subject to bankruptcy, insolvency, fraudulent conveyance, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.

(2) Certain amendments to the Agreements or the Trust Agreements may be made with the consent of the owners of a majority of the aggregate principal amount of the Series 2008 Bonds then Outstanding, and certain amendments to the Master Indenture may be made with the consent of the owners of not less than 51% of the aggregate principal amount of Obligations then Outstanding. Such amendments may adversely affect the security of the Holders, and such percentage of owners may be comprised wholly or partially of the owners of additional Obligations. In addition, upon compliance with certain conditions set forth in the Master Indenture, amendments to certain of the operational, procedural or financial covenants set forth in the Master Indenture, including the substitution and replacement of the Master Indenture, may be effected without consent of the Holders or the holders of Obligations. Such amendments may adversely affect the security for the Series 2008 Bonds.

(3) The facilities of the Members of the Obligated Group are not pledged as security for the Series 2008 Bonds or the Series 2008 Obligations. In addition, such facilities are not comprised of general-purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the healthcare facilities of the Members of the Obligated Group, and, upon any default, the Bond Trustee may not obtain an amount equal to the amount of the outstanding Series 2008 Bonds from the sale or lease of such facilities if it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Members of the Obligated Group or otherwise.

(4) The revenues of the Members of the Obligated Group are not pledged as security for the Series 2008 Bonds or the Series 2008 Obligations.

County Lease

Inova Fairfax Hospital and Inova Mount Vernon Hospital are located on land owned by the County and leased to the Corporation pursuant to the terms of the County Lease Agreement. Although the County Lease Agreement does not expire until the year 2066, the County has the right to evict the Corporation from Inova Fairfax Hospital and Inova Mount Vernon Hospital and terminate the County Lease Agreement if the Corporation remains in breach of the County Lease Agreement for 180 days following notice of the breach. Upon such termination, the County would be obligated to pay certain of the Corporation's capital indebtedness, including the Series 2008 Bonds, to the extent approved by the County, but only to the extent that the proceeds thereof were allocable to the construction, renovation, acquisition or purchase of the facilities, equipment or other medical appliances and systems located at or allocable to Inova Fairfax Hospital and Inova Mount Vernon Hospital, and only to the extent of the revenues, income, receipts, money and proceeds generated by the operation of such hospitals. Moreover, the provisions of the County Lease Agreement do not obligate the County to continue to operate such hospitals. However, if the County were to determine not to operate one or both of such hospitals, the County would be required to sell the leased premises relating to such hospital or hospitals and apply the proceeds of such sale to the payment of the portion of the Series 2008

Bonds and other indebtedness of the Corporation approved by the County which is allocable to such hospitals.

Exemption from Federal Income Tax

General. In order to benefit from the issuance of tax-exempt debt, a non-governmental hospital or health system must be exempt from federal taxation pursuant to Section 501(c)(3) of the Code. Achievement and maintenance of tax-exempt status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals.

Charitable Purpose. Most healthcare organizations that qualify as entities described in Section 501(c)(3) of the Code are considered to be operated primarily for charitable purposes because they are engaged in activities that promote the health of the community. If an exempt healthcare organization engages in trade or business activities unrelated to its charitable purpose, revenues from such activities may be subject to unrelated business income tax (“UBIT”), and if such activities comprise too large a proportion of its activities, the organization’s tax exemption could be revoked (see “Loss of Tax-Exempt Status”).

No Private Inurement. A Section 501(c)(3) organization must ensure that none of its net earnings inure in whole or in part to the benefit of private shareholders or individuals. The payment of “reasonable compensation” to individuals for services rendered to an exempt hospital is permitted, however (see “Intermediate Sanctions”). Payments by exempt hospitals to physicians are subject to this “reasonable compensation” requirement (see “Payment for Physician Practices” and “Physician Recruitment and Retention”).

The Community Benefit Standard. A hospital is considered to be engaged in the promotion of health that is broad enough to benefit the community when it operates an emergency room open to all persons and provides hospital care for all persons in the community able to pay the cost thereof, either directly or through third party reimbursement. Furthermore, a hospital must have a board composed of independent civic leaders drawn from the community and a medical staff open to all physicians in the area consistent with the size and nature of its facilities.

Maintenance of the Tax-Exempt Status of the Members of the Obligated Group

General. The tax-exempt status of the Series 2008 Bonds presently depends upon the maintenance by each Member of the Obligated Group of its status as an organization described in Section 501(c)(3) of the Code. Tax-exempt hospitals and other providers are subject to scrutiny and possible enforcement by the Internal Revenue Service (the “IRS”) concerning transactions with physicians and other individuals and entities.

Indigent Care. The community benefit standard considers the extent to which tax-exempt hospitals and related providers treat indigent patients who are unable to pay for their medical care. Hospitals and other providers may be susceptible to economic and political changes which could increase the number of indigents for whom they provide healthcare

services. General economic conditions which affect the number of employed individuals who have health coverage will similarly affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal healthcare programs (including Medicare and Medicaid) may increase the frequency of indigent care by such hospitals and other providers. Indigent care commitments of the Obligated Group could have a material adverse effect on the financial condition of the Obligated Group, taken as a whole.

Payment for Physician Practices. Acquisition of physician practices is often a key component of integrated delivery system development. When the purchaser is a tax-exempt hospital, both the private inurement and private benefit prohibitions are implicated. To comply with the inurement prohibition, the purchasing hospital must be able to demonstrate, through an independent written appraisal, that the purchase price is no more than fair market value. Failure to pay fair market value would also implicate the fraud and abuse laws. See “Federal Fraud and Abuse Laws and Regulations.” Under certain circumstances, it may be prudent to require acquired physician practices to provide some degree of unreimbursed care to indigents in order that the tax-exempt owner of the practice can maintain its tax-exempt status.

Physician Recruitment and Retention. If a community shows a need for a specialty currently unavailable, a tax-exempt hospital may take steps to make a necessary specialty available to hospital patients. The IRS has agreed that under certain circumstances tax-exempt hospitals may provide certain incentives to specialists from outside the hospital’s geographical area to encourage such physicians to relocate. To avoid constituting private inurement, the compensation to the physician must serve a purpose of the hospital and not solely the purpose of benefiting the physician, must be the result of an arm’s length transaction, should be capped at a predetermined level, and must be reasonable in light of the total responsibilities of the physician and consistent with fair market value. Finally, the recruitment arrangements must also be in compliance with fraud and abuse law. See “Federal Fraud and Abuse Laws and Regulations.” The IRS does not favor the use of incentives to retain physicians after the initial recruitment period of two or three years, and most physician retention arrangements would also violate fraud and abuse laws.

Joint Ventures. When a tax-exempt hospital participates in a joint venture with physicians or other for-profit person to operate a business, the hospital’s participation in the joint venture will be subject to scrutiny to determine whether the hospital is jeopardizing its tax exemption and whether the income from the joint venture is unrelated business income.

Loss of Tax-Exempt Status. Although the IRS has not frequently revoked the Section 501(c)(3) tax-exempt status of nonprofit healthcare corporations, it could do so in the future. Loss of tax-exempt status by even one Member of the Obligated Group could potentially result in loss of tax exemption of the Series 2008 Bonds and other tax-exempt debt of the Obligated Group, and defaults in covenants regarding the Series 2008 Bonds and other related tax-exempt debt would likely be triggered. Loss of tax-exempt status could also result in substantial tax liabilities on income of the affected Member. For these reasons, loss of tax-exempt status of any Member of the Obligated Group could have a material adverse effect on the financial condition of the Obligated Group, taken as a whole. Given the uncertainty with respect

to the standards applied by the IRS to many hospital transactions, Members of the Obligated Group are thus also at risk for incurring substantial monetary liabilities imposed by the IRS.

Intermediate Sanctions. In lieu of revocation of tax-exempt status, the Code allows for the imposition of penalty excise taxes on certain “excess benefit transactions” involving Section 501(c)(3) and 501(c)(4) organizations and “disqualified persons.” An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the revenues of the tax-exempt entity where the transaction results in impermissible private benefit. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The Code imposes excise taxes on the disqualified person and any “organization manager” who knowingly participates in an excess benefit transaction. The intermediate sanction rules do not penalize the exempt organization itself, so there would be no impact on the Members of the Obligated Group if an excess benefit transaction were subject to IRS enforcement unless the transaction was sufficiently egregious to justify revocation.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of healthcare providers, including the Members of the Obligated Group, to an extent that cannot be determined at this time:

(1) Additional legislation or regulations dealing with or reducing Medicare or Medicaid reimbursement, promoting competition in the healthcare industry, promoting healthcare cost containment or providing for national health insurance may be passed or promulgated, as the case may be. See “REGULATION OF THE HEALTHCARE INDUSTRY.”

(2) Additional legislation or regulations concerning requirements to maintain tax-exempt status.

(3) Reductions in hospital utilization could adversely impact the financial condition of the Members of the Obligated Group. For example, a number of factors in addition to competition from other facilities have been reducing hospitalization. Physicians’ practice patterns indicate a trend to fewer inpatient admissions and shorter lengths of stay for those who are admitted. In addition, third-party payors have exerted efforts to contain their costs by reviewing and questioning the need for certain inpatient admissions and the length of hospital stays.

(4) Increased unemployment or other adverse economic conditions and increased numbers of patients suffering from uninsured illnesses could increase the proportion of patients who are uninsured or who are otherwise unable to pay fully for the cost of their care.

(5) Technological advances in recent years have accelerated the trend toward the use of sophisticated diagnostic and treatment equipment in hospitals. The availability of certain equipment may be a significant factor in hospital utilization, but purchase of such

equipment may be subject to health planning agency approval and to the ability of the Members of the Obligated Group to finance such purchases.

(6) The cost of providing malpractice and general liability insurance coverage to the Members of the Obligated Group may increase, particularly with increases in Virginia's cap on medical malpractice awards. For a discussion of the Obligated Group's current insurance coverage, see Appendix A—"Inova Health System Foundation and the Members of the Obligated Group—Malpractice and Other Insurance."

(7) The number of nurses and other qualified healthcare technicians and personnel available may not be sufficient to support the Obligated Group's operations. In addition, shortages in nursing personnel or other healthcare professionals may result in the need for increased compensation expenses to obtain or retain such personnel.

(8) Hospitals and their employees fall within the scope of, and are subject to, the National Labor Relations Act. Accordingly, labor relationships with hospital and nursing home employees are regulated by the federal government. While the Members of the Obligated Group do not currently have any unions, there is no guarantee that other employees of the Members of the Obligated Group will not become organized into unions at some time in the future.

(9) Reduced utilization may result from decreases in population.

(10) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of the facilities operated by the Members of the Obligated Group by such means as preventive medicine, improved occupational health and safety and outpatient care could reduce utilization or revenues or both.

(11) Delays in construction of capital projects undertaken by the Members of the Obligated Group may have an adverse effect on revenues related to such projects.

(12) Decrease in the availability or receipt of grants, contributions or bequests may have an adverse effect on revenues.

(13) Inflation or other adverse economic conditions may have an adverse effect on revenues.

(14) Developments affecting the federal, state or local tax-exempt status of nonprofit organizations, which could make unavailable tax-exempt financing for future projects by the Members of the Obligated Group, may have an adverse effect on revenues.

(15) Regulatory actions which might limit the ability of the Members of the Obligated Group to undertake capital improvements to their facilities or to develop new institutional health services may have an adverse effect on revenues.

The risks which might affect the Members of the Obligated Group might also affect any future Members of the Obligated Group.

REGULATION OF THE HEALTHCARE INDUSTRY

General Healthcare Industry Factors

The Members of the Obligated Group and the healthcare industry in general are subject to regulation by a number of governmental agencies, including those which administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health planning programs and other federal, state and local governmental agencies. The healthcare industry is also affected by federal, state and local policies developed to regulate the manner in which healthcare is provided, administered and paid for nationally and locally. As a result, the healthcare industry is sensitive to legislative and regulatory changes in such programs and is affected by reductions and limitations in governmental spending for such programs as well as changing healthcare policies. Over the past several years, Congress has consistently attempted to curb the growth of federal spending on healthcare programs. In addition, Congress and other governmental agencies have focused on the provision of care to indigent and uninsured patients, healthcare fraud and abuse, the prevention of “dumping” such patients on other hospitals in order to avoid provision of unreimbursed care, the tax-exempt status of nonprofit corporations which engage in activities unrelated to their exempt purposes and other issues. The Members of the Obligated Group receive a significant portion of their revenues from government programs, and it is unlikely that the Members of the Obligated Group could attract sufficient numbers of private-pay patients to become self-sufficient without reimbursements from governmental programs. Adoption of additional regulations in these areas could have an adverse effect on the results of operations of the Members of the Obligated Group. Some of the legislation and regulations affecting the healthcare industry are discussed in this section.

Regulatory and Accrediting Actions

Hospitals in general are subject to regulation by federal, state, local and other regulatory or accrediting agencies created to oversee planning and development of healthcare resources and services; the governmental and private agencies that administer the Medicare and Medicaid programs; and other federal, state and local governmental agencies. In certain instances, failure to comply with the guidelines promulgated by such agencies can result in penalties to hospitals, including loss of licenses, accreditation or eligibility for certain reimbursement programs.

Specifically, the Members of the Obligated Group are subject to regulatory action by the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974; the governmental and private agencies that administer the Medicare and Medicaid programs; and other federal, state and local governmental agencies. In addition, as entities exempt from federal income taxation pursuant to Section 501(c)(3) of the Code, the Members of the Obligated Group are subject to IRS regulations applicable to such entities. Also, actions and decisions by The Joint Commission could affect the accreditation status of Members of the Obligated Group.

Medicare Reimbursement and Related Federal Legislation

Background. The federal government is frequently engaged in intense debate over federal budget commitments, and, in particular, the extent of the government’s financial

commitment to the Medicare program. There is a high probability of substantial reductions in the level of future Medicare funding. Such prospective changes in Medicare payments to hospitals, including the potential reduction of funding levels and the transition of Medicare enrollees into Medicare managed care plans, could have an adverse effect on the Obligated Group's revenues.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for healthcare reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain healthcare 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 certain physicians services, medical supplies and durable medical equipment. The Medicare Advantage Program, also known as Medicare Part C, enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of risk-based plans. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable state.

Medicare. Medicare is administered by CMS, an agency of the U.S. Department of Health and Human Services ("DHHS"), which delegates to the states the process for certifying those organizations to which CMS will make payment. The rule-making authority of DHHS is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS.

Medicare claims are processed by non-government organizations or agencies that contract to serve as the fiscal agent between providers and the federal government to locally process Medicare's institutional and provider claims. These claims processors are known as "intermediaries" and "carriers." They apply the Medicare coverage rules to determine the appropriateness of claims. CMS selects organizations (generally insurance companies) to act as intermediaries and carriers in various states or regions and enters into a "prime contract" with each. Medicare is in the process of transitioning intermediary and carrier contracts to newly designated Medicare Administrative Contractors (MACs). Most Medicare services are paid for on a fee-for-service basis under the reimbursement methods described below. Some Medicare recipients, however, enroll in Medicare Advantage managed care plans, which principally, but not exclusively, reimburse providers on a capitated basis.

Hospital Inpatient Payments. Hospitals are generally paid a pre-determined payment amount for inpatient services provided to Medicare beneficiaries under the Inpatient Prospective Payment System ("IPPS") is based on established categories of treatments or conditions known as Medicare Severity Diagnosis Related Groups ("MS-DRGs"). The MS-DRG rate covers all care provided to a beneficiary during an inpatient stay. Separate payments are made for inpatient operating costs and inpatient capital-related costs. The actual cost of care, including capital costs, may be more or less than the MS-DRG rate. MS-DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. As a consequence, any adverse development or change in Medicare reimbursement for acute care services could have a material adverse effect on the financial condition and results of operating of the Obligated

Group. There is no guarantee that rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Hospital Outpatient Payments. Hospitals are also paid a predetermined payment amount for most outpatient services based upon ambulatory payment classification (“APC”) groups. An APC group includes various services and procedures determined to be similar. There can be no assurance that the hospital APC payment, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services.

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

Payment for Hospital Capital Costs. Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate adjusted for geographic location. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Obligated Group’s facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Disproportionate Share Payments. The federal Medicare program provides additional payment for hospitals that serve a disproportionate share of certain low income patients. Inova Alexandria Hospital and Inova Fairfax Hospital qualify as disproportionate share hospitals, but there can be no assurance that Inova Alexandria Hospital and Inova Fairfax Hospital will qualify for disproportionate share status in the future. There also can be no assurance that disproportionate share payments will not be decreased or eliminated in the future.

Medicaid

Medicaid and Other State Healthcare Programs. Unlike Medicare, which is an exclusively federal program, Medicaid is a partially federally-funded state program of medical care for the indigent. States obtain federal funds for their Medicaid programs by obtaining the approval of CMS of a “state plan” which conforms to Title XIX of the Social Security Act and its implementing regulations. Within broad national guidelines which the federal government provides, each of the states establishes its own eligibility standards, determines the type, amount, duration and scope of services, sets the rate of payment for services and administers its own program. Thus, the Medicaid program varies considerably from state to state, as well as within each state over time. After its state plan is approved, a state is entitled to federal matching funds for Medicaid expenditures.

Medicaid Payment of Healthcare Providers. Medicaid operates as a vendor payment program. Subject to federally-imposed upper limits and specific restrictions, states may either pay providers directly or may pay for Medicaid services through various prepayment arrangements such as HMOs. Providers participating in Medicare must accept Medicaid payment rates as payment in full. States must make additional payments to qualified hospitals

that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients under what is known as the “disproportionate share hospital” adjustment. States may impose nominal deductibles, coinsurance or copayments on some Medicaid recipients for certain services. Emergency services and family planning services must be exempt from such copayments. Certain Medicaid recipients must be excluded from this cost sharing: pregnant women, children under age 18, hospital or nursing home patients who are expected to contribute most of their income to institutional care and categorically needy HMO enrollees.

Medicaid in Virginia. The Medicaid program is administered by DMAS pursuant to federal and state laws and regulations. DMAS receives funding for program expenditures from both the federal government and the Commonwealth of Virginia. Limits on Medicaid payment may be affected by federal or state law or regulation. For inpatient Medicaid and other state programs, hospitals are now reimbursed on an All Payor Diagnosis Related Group (“AP-DRG”) based prospective payment system. This methodology and pre-determined payment amounts are reviewed periodically and subject to adjustment. Capital costs and outpatient services are reviewed annually and settled on cost basis subject to certain regulatory reductions. No assurances can be given that payments by Medicaid made to the Obligated Group will be adequate to compensate the Members of the Obligated Group for the cost of the patient services provided to Medicaid recipients.

Outliers for Medicare and Medicaid. The Medicare and Medicaid programs analyze high cost cases to determine whether an outlier payment should be made. This amount is paid in addition to the MS-DRG/AP-DRG payment for unusually high cost cases. Medicare and Medicaid have separate formulas for calculating the outlier payment for Medicare. Outlier payments may also be made for high cost outpatient cases. No assurances can be given that outlier payments by Medicare and Medicaid made to the Obligated Group will be adequate to compensate the Members of the Obligated Group for the cost of the patient services provided to both Medicare and Medicaid recipients.

Federal and State Laws and Regulations

“Fraud” and “False Claims.” Healthcare “fraud and abuse” laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and other healthcare providers can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate healthcare fraud, including the exclusion of a hospital or other healthcare provider from participation in the Medicare and Medicaid programs, civil monetary penalties, and suspension of Medicare and Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or

private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation.

Laws governing fraud and abuse may apply to hospitals and other healthcare providers, and to nearly all individuals and entities with which a hospital or other healthcare provider does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals and other healthcare providers. See “Enforcement Activity” below. Major elements of these often highly technical laws and regulations are generally summarized below.

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

Anti-Kickback Law. The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for, among other things, a referral (or to induce a referral) for any item or service that may be paid by any federal or state healthcare program. The Anti-Kickback Law applies to many common healthcare transactions between persons and entities with which a hospital or healthcare system does business, including hospital-physician joint ventures, hospital-physician integration vehicles (such as a medical foundation), medical director agreements, physician recruitment agreements, physician office leases, purchases from vendors, and other transactions.

Violation or alleged violation of the Anti-Kickback Law can result in settlements that require multi-million dollar payments and compliance agreements and potentially also exclusion from participation in federal or state healthcare programs. The Anti-Kickback Law can be prosecuted either criminally or civilly. Each violation is a felony, subject to a fine of up to \$25,000 for each act (which may be each item or each bill sent to a federal program), imprisonment for up to five years and/or exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program) or an “assessment” of three times the amount claimed may be imposed.

Stark Referral Law. The federal “Stark” statute prohibits the referral by a physician of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and various diagnostic

imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital or other healthcare provider from furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other healthcare providers arguably constitute “financial relationships” within the meaning of the Stark statute. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital or other healthcare provider that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, a hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital or other healthcare provider may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medicaid programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital or other healthcare provider.

HIPAA. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, adds additional criminal sanctions for healthcare fraud and applies to all healthcare benefit programs, whether public or private. HIPAA also provides for punishment of a healthcare provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds or other assets of a healthcare benefit program. A healthcare provider convicted of healthcare fraud could be excluded from Medicare.

Exclusions from Medicare or Medicaid Participation. The government may exclude a hospital or other healthcare provider from Medicare or Medicaid program participation that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state healthcare program, any criminal offense relating to patient neglect or abuse in connection with the delivery of healthcare, felony fraud against any federal, state or locally financed healthcare program or a felony offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud or other financial misconduct relating either to the delivery of healthcare in general or to participation in a federal, state or local government program. Exclusion from the Medicare or Medicaid program means that a hospital or other healthcare provider would be terminated from participation and no program payments can be made. Any hospital exclusion could be a materially adverse event, even within a large hospital system.

Compliance with Conditions of Participation. CMS, in its role of monitoring participating providers’ compliance with conditions of participation in the Medicare program,

may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

Enforcement Activity. Enforcement activity against hospitals and healthcare providers has increased and enforcement authorities have adopted aggressive approaches. Hospitals and other healthcare providers are frequently subject to audits, investigations or other enforcement actions regarding the healthcare fraud laws mentioned above. In addition, enforcement agencies increasingly pursue sanctions for violations of healthcare fraud and abuse laws through civil administrative actions. Administrative regulations may require less proof of a violation than do criminal laws and, thus, healthcare providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital or other healthcare provider could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital or other healthcare provider, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal healthcare fraud laws described above and, therefore, penalties or settlement amounts can be compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or healthcare providers in a health system, as the government often extends enforcement actions regarding healthcare fraud to other hospitals or healthcare providers in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital or other healthcare provider could have materially adverse consequences to a health system taken as a whole.

Virginia “Fraud and Abuse” Laws and Regulations. Virginia law makes it a crime for hospitals and practitioners to knowingly offer or pay any remuneration, directly or indirectly, to induce referrals to a hospital. Solicitation or receipt of remuneration in exchange for making referrals for services paid for by Virginia Medicaid can result in felony convictions and fines of up to \$25,000.

Virginia Restrictions on Referrals. Virginia law prohibits practitioners from making certain referrals to entities outside the practitioner’s office or group practice if the practitioner or any of the practitioner’s immediate family members are investors in such entity. Virginia law authorizes penalties up to \$20,000 per referral bid, or claim, which is submitted in violation of this prohibition on referrals.

Privacy Requirements. Federal and state laws address the confidentiality of individuals’ health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of relevant federal and

state statutes and regulations or authorized by the patient. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of healthcare clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties of up to \$25,000 per calendar year for failure to comply with requirements and standards. HIPAA also imposes criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 and up to one year imprisonment for wrongful disclosure to \$250,000 and up to ten years imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

EMTALA. The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals to conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient. A hospital that violates EMTALA is subject to civil monetary penalties of up to \$50,000 per offense and exclusion from Medicare and Medicaid programs. In addition, a hospital may be liable for any claim by an individual who has suffered harm as a result of a violation of EMTALA.

Future Federal Legislation

Future legislation, regulation, or other actions by the federal government are expected to continue the trend toward more restrictive limitations on reimbursement for healthcare services. Legislation is periodically introduced in Congress which could result in limitations on healthcare revenues, reimbursement and costs or charges. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations upon the Obligated Group's financial performance cannot be determined at this time.

Any future changes to the Medicare and Medicaid programs could result in substantial reductions in the amounts of Medicare and Medicaid payments to healthcare providers in the future, which could substantially reduce the revenues available to the Members of the Obligated Group, and any reduction in the levels of payment in these government payment programs could substantially adversely affect the Obligated Group's financial condition and ability to fulfill its obligations securing the Series 2008 Bonds.

Congress is also studying a number of questions relating to organizations whose income is exempt from federal income taxation, such as the Members of the Obligated Group. Such study may result in additional requirements which the Members of the Obligated Group must meet in order to maintain their tax-exempt status. One proposal which has been made is that tax-exempt organizations which are hospitals be required to provide a certain level of indigent care. Whether as a result of the study now being conducted or otherwise, Congress can at any time impose additional requirements on tax-exempt organizations. Should Congress impose any new requirements on tax-exempt organizations, such as Members of the Obligated Group, including any requirements relating to indigent care, it is not certain that (i) the Members of the Obligated

Group would be able to meet such requirements or (ii) if they could meet such requirements, they would not suffer adverse economic consequences in doing so.

LITIGATION

As of the date hereof, there is no litigation of any nature pending or threatened against any Member of the Obligated Group or the Authority to restrain or enjoin the issuance, sale, execution or delivery of the Series 2008 Bonds or the application of the proceeds thereof as described herein, or in any way contesting or affecting the validity of the Series 2008 Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security for the Series 2008 Bonds or the existence or powers of the Authority. See Appendix A—“Inova Health System Foundation and the Members of the Obligated Group - Pending Litigation.”

APPROVAL OF LEGALITY

The Series 2008 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale and to the approval of legality by McGuireWoods LLP of New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Authority by David P. Bobzien, Esq., County Attorney for Fairfax County, Virginia. Certain legal matters will be passed upon for the Members of the Obligated Group by their counsel, McGuireWoods LLP of Richmond, Virginia. Certain legal matters will be passed upon for the Underwriter by its counsel, King & Spalding LLP.

LIMITED OBLIGATIONS

Each series of the Series 2008 Bonds are limited obligations of the Authority, payable solely from payments made pursuant to the applicable Agreement and the applicable Series 2008 Obligation and from amounts on deposit in certain funds and accounts established under the applicable Trust Agreement. Neither the credit nor the taxing power of the Commonwealth of Virginia, Fairfax County, Virginia, or any political subdivision thereof is pledged for the payment of the Series 2008 Bonds, nor shall the Series 2008 Bonds be or be deemed an obligation of the Commonwealth of Virginia, Fairfax County, Virginia, or of any political subdivision, agency or instrumentality thereof other than the Authority. Except as stated above, the Authority shall not be liable on its obligations in respect to the Series 2008 Bonds, nor are the members, officers or employees of the Authority liable on such obligations. The Authority has no taxing power.

TAX MATTERS

Opinion of Bond Counsel—Federal Income Tax Status of Interest

The opinion of McGuireWoods LLP, Bond Counsel, will state that, under current law, interest on the Series 2008 Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section

56 of the Internal Revenue Code of 1986, as amended (the “Code”)), interest on the Series 2008 Bonds must be included in computing adjusted current earnings. See Appendix D for the forms of the proposed opinions of Bond Counsel.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2008 Bonds.

Bond Counsel’s opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel’s judgment as to the proper treatment of interest on the Series 2008 Bonds for federal income tax purposes. Bond Counsel’s opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority or the Borrowers or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the “IRS”). The Authority and the Borrowers have covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

In delivering its opinion regarding the Series 2008 Bonds, Bond Counsel is relying upon certifications of representatives of the Authority, the Borrowers and other parties as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the Authority and the Borrowers. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2008 Bonds in order for interest on the Series 2008 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that each of the Borrowers maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2008 Bonds and the use of the property financed or refinanced by the Series 2008 Bonds, limitations on the source of the payment of and the security for the Series 2008 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2008 Bonds to the Treasury of the United States (the “Treasury”). The Trust Agreements, the Agreements and the Tax Certificate and Agreement contain covenants (the “Covenants”) under which the Authority and the Borrowers have agreed to comply with such requirements. Failure by the Authority and the Borrowers to comply with their respective Covenants could cause interest on the Series 2008 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2008 Bonds from becoming includable in gross income for federal income tax purposes. Compliance by the Authority with its respective Covenants does not require the Authority to make any financial contribution for which it does not receive funds from the Borrowers.

Certain requirements and procedures contained, incorporated or referred to in the Trust Agreements, the Agreements and the Tax Certificate and Agreement, including the Covenants,

may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth therein. Bond Counsel expresses no opinion concerning any effect on the excludability of interest on the Series 2008 Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2008 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of the Series 2008 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the Series 2008 Bonds.

Prospective purchasers of the Series 2008 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the “branch profits tax,” individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the Series 2008 Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made after March 31, 2007 to any owner of a Series 2008 Bond who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any owner of a Series 2008 Bond who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of interest on the Series 2008 Bonds from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Possible Legislative or Regulatory Action

Legislation and regulations affecting tax-exempt bonds are continually being considered by the United States Congress, the Treasury and the IRS. In addition, the IRS has established an expanded audit and enforcement program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed after the date of issue of the Series 2008 Bonds or an audit initiated or other enforcement or regulatory action taken by the Treasury or the IRS involving either the Series 2008 Bonds or other tax-exempt obligations will not have an adverse effect on the tax status or the market price of the Series 2008 Bonds or on the economic value of the tax-exempt status of the interest thereon.

Opinion of Bond Counsel—Virginia Tax Consequences

The opinion of Bond Counsel also will state that, under current law, the interest on the Series 2008 Bonds, including any profit made on the sale thereof, is exempt from all taxation by the Commonwealth of Virginia or any political subdivision thereof. Bond Counsel will express no opinion regarding (i) other Virginia tax consequences arising with respect to the Series 2008 Bonds or (ii) any consequences arising with respect to the Series 2008 Bonds under the tax laws of any state or local jurisdiction other than Virginia. Prospective purchasers of the 2008 Bonds should consult their own tax advisors regarding the tax status of interest on the 2008 Bonds in a particular state or local jurisdiction other than Virginia.

The United States Supreme Court is in the process of reviewing *Davis v. Kentucky Dep't of Revenue of the Finance and Admin. Cabinet*, 197 S.W.3d 557 (Ky. App. 2006), cert. granted 127 S. Ct. 2451 (Mem) (2007). In *Davis*, a Kentucky appellate court ruled that Kentucky's taxation of interest on bonds issued by states other than Kentucky violates the United States Constitution because Kentucky exempts from taxation interest on bonds issued by Kentucky and its political subdivisions. Virginia law currently has a similar disparity in the tax treatment of bonds issued by the Commonwealth of Virginia and its political subdivisions, including the Series 2008 Bonds, and the tax treatment of bonds issued by other states and the political subdivisions thereof. It is not clear what effect the outcome of this litigation, or any judicial or legislative response to the outcome of this litigation, could have on the Virginia state law tax treatment of the Series 2008 Bonds or bonds issued by other states or their political subdivisions. Prospective purchasers of the Series 2008 Bonds should consult with their own tax advisors regarding the outcome of this litigation and any judicial or legislative response to the outcome of this litigation.

UNDERWRITING

Citigroup Global Markets Inc. ("Citigroup") has agreed to purchase all of the Series 2008 Bonds. The aggregate underwriting discount for all of the Series 2008 Bonds is \$_____. The Contract of Purchase between Citigroup and the Authority with respect to all of the Series 2008 Bonds provides that Citigroup will purchase all of the Series 2008 Bonds if any of the Series 2008 Bonds are purchased. The Contract of Purchase requires the Members of the Obligated Group to deliver to Citigroup a Letter of Representations containing the agreement of the Members of the Obligated Group to indemnify Citigroup against losses, claims, damages and liabilities to third parties arising out of any materially incorrect statement in or material omissions of certain information from this Official Statement. The initial public offering price set forth on the cover of this Official Statement may be changed by Citigroup, and Citigroup may offer and sell the Series 2008 Bonds to certain dealers (including dealers depositing Series 2008 Bonds into investment trusts) and others at prices lower than the offering price set forth on the cover.

RELATIONSHIPS AMONG PARTIES

McGuireWoods LLP is serving both as Bond Counsel and as counsel to the Obligated Group with respect to issuance of the Series 2008 Bonds.

FINANCIAL STATEMENTS

The consolidated financial statements of Inova as of December 31, 2007 and 2006 and for the years then ended included in Appendix B have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing in Appendix B. Not all controlled affiliates of Inova are Members of the Obligated Group. For the fiscal year ended December 31, 2007, the Obligated Group represented approximately 96% of total revenues and 98% of net income of Inova and its controlled affiliates. The balance of total revenues of Inova and its controlled affiliates was generated by non-hospital operations. See Appendix A—“Inova Health System Foundation and the Members of the Obligated Group - Results of Operations.”

RATINGS

Inova expects to receive ratings on the Series 2008 Bonds of “Aa2/VMIG1” and “AA+/A-1+” from Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services, respectively. Any explanation of the significance of such ratings should be obtained from the rating assigning the same. Certain information and materials not included in this Official Statement were furnished to such rating agencies by the Obligated Group. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions made by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency assigning the rating, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the owners of the Series 2008 Bonds any proposed revision or withdrawal of the ratings of the Series 2008 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Series 2008 Bonds.

LEGALITY FOR INVESTMENT

The Act provides that bonds issued pursuant thereto are legal investments for all banks, savings banks, trust companies, building and loan associations, insurance companies, fiduciaries, trustees and guardians and for all public funds of the Commonwealth of Virginia or other political corporations and subdivisions of the Commonwealth of Virginia. The Series 2008 Bonds are eligible to secure the deposit of any and all public funds of the Commonwealth of Virginia and all public funds of cities, towns, counties, school districts or other political corporations or subdivisions of the Commonwealth of Virginia, and the Series 2008 Bonds are lawful and sufficient security for said deposits. No representation is made as to the eligibility of the Series 2008 Bonds for investment or any other purpose under any law of any other state.

CONTINUING DISCLOSURE

Pursuant to the Disclosure Agreement, each Member of the Obligated Group has undertaken to provide disclosure of financial and operating data including financial statements, which are not required to be audited, on an annual basis, and notice of the occurrence of certain events on an ongoing basis, for the benefit of the Holders of the Series 2008 Bonds. The proposed form of the Disclosure Agreement is set forth in Appendix E hereto. The Disclosure

Agreement may be amended or modified without Holder consent under certain circumstances set forth therein. Copies of the Disclosure Agreement when executed by the parties thereto upon the delivery of the Series 2008 Bonds will be on file at the Designated Corporate Trust Office of the Bond Trustee in Richmond, Virginia.

In the event the Series 2008 Bonds are converted to an interest rate mode that qualifies for an exemption from Rule 15c2-12, including a conversion to the Weekly Interest Rate, the Disclosure Agreement may, at the election of the Members of the Obligated Group, be terminated at the time of such conversion.

MISCELLANEOUS

The references herein to the Master Indenture, the Trust Agreements, the Agreements, the Liquidity Agreements and the Series 2008 Obligations are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and for full and complete statements of such provisions reference is made to such instruments, documents and other materials, copies of which will be on file at the Designated Corporate Trust Office of the Bond Trustee in Richmond, Virginia.

The Authority has duly authorized the execution and delivery of this Official Statement.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF FAIRFAX COUNTY, VIRGINIA**

By: _____
Chairperson

**INOVA HEALTH SYSTEM FOUNDATION
INOVA HEALTH CARE SERVICES
INOVA ALEXANDRIA HOSPITAL
INOVA ALEXANDRIA HEALTH SERVICES
CORPORATION
INOVA HEALTH SYSTEM SERVICES
LOUDOUN HEALTHCARE, INC.
LOUDOUN HOSPITAL CENTER**

By: _____
Chief Financial Officer

APPENDIX A

INOVA HEALTH SYSTEM FOUNDATION AND THE MEMBERS OF THE OBLIGATED GROUP

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INOVA HEALTH SYSTEM

Inova Health System (the “System”) is a not-for-profit health care system serving Northern Virginia offering a comprehensive array of services at multiple access points. The System includes five hospitals with over 1,700 acute care beds, and other health services such as emergency and urgent care centers, home care, nursing homes, mental health and blood donor services. Services range from health promotion/disease prevention to the most advanced services with specialty distinction in a number of areas, such as cardiology, neurosciences, orthopedics, women’s and children’s services and cancer care. The System, through its constituent entities, employs over 13,000 full time equivalent employees. The System's mission is to provide quality care and improve the health of the diverse communities it serves.

Inova Fairfax Hospital, the System’s flagship tertiary care center, is centrally located in Fairfax County, Virginia, and is a regional referral center in Northern Virginia. Inova Mount Vernon Hospital, Inova Fair Oaks Hospital, Inova Alexandria Hospital, and Inova Loudoun Hospital are each general acute care facilities serving communities throughout the primary service area of Fairfax, Loudoun, Northern Prince William, and Southern Arlington Counties and the independent Cities of Alexandria, Manassas, Manassas Park, and Falls Church, Virginia. The System also serves the secondary service area of Fauquier, Northern Stafford, Southern Prince William, and Northern Arlington Counties in Virginia and tertiary service area of Clarke, Warren, Rappahannock, Culpeper, Spotsylvania, and Southwestern Stafford Counties in Virginia, Montgomery and Prince George’s Counties in Maryland, and Jefferson County in West Virginia.

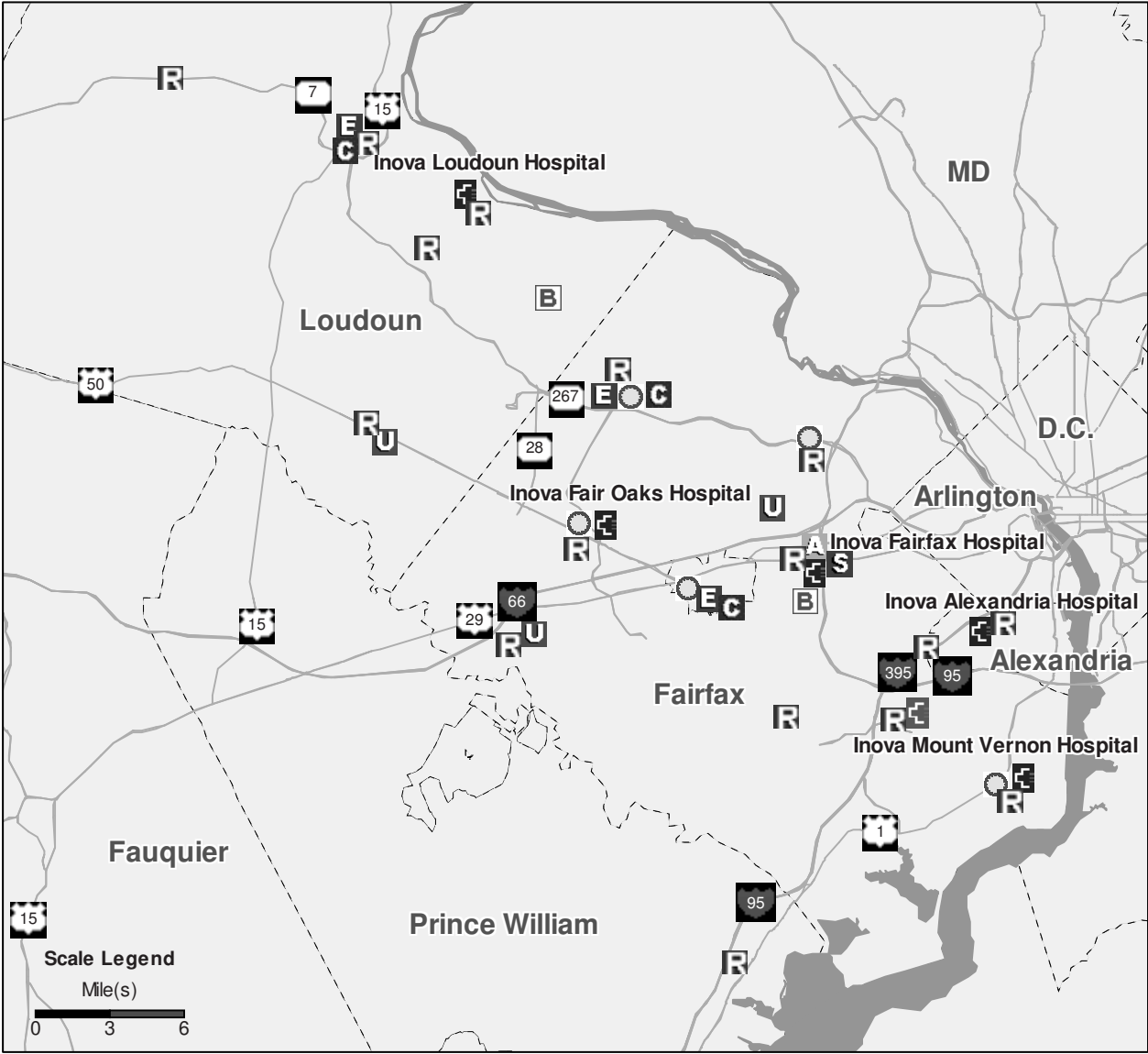
The System is recognized as a leading health care resource locally and nationally:











- Named one of the country’s ‘Most Integrated’ health systems by Verispan for ten years (1998 through 2007)
- For the sixth year, named one of the country’s Top 100 Organizations for Working Mothers by Working Mother Magazine (2001 through 2007)
- Along with Loudoun Healthcare, Inc., named among the nation's select few Best Employers for Workers Over 50 according to the American Association of Retired People (AARP) (2006)
- Named one of the nation’s top 30 companies for executive women by the National Association for Female Executives (NAFE) (2006)

National awards received by Inova hospitals include:

- Inova Fairfax Hospital received “US News and World Report” ranking in July 2007 for five clinical areas (heart and heart surgery, cancer, digestive disorders, gynecology and endocrinology)
- Inova Loudoun Hospital received the Magnet award from the American Nurses Credentialing Center (ANCC) (2006); Inova Fairfax Hospital was the first hospital in the region to achieve Magnet status and has maintained the designation since 1997
- Inova Fair Oaks Hospital received the United States Senate Productivity and Quality Progress in Performance Excellence Award in 2006

Inova Health System Facility Locations



- | | |
|--|---|
|  Inova Hospitals |  Inova System Office |
|  Inova Emergency Care Center |  Inova Nursing Homes |
|  Inova HealthPlex |  Inova Urgent Care |
|  Inova Sunrise Assisted Living |  Inova Outpatient Rehab / Physical Therapy |
|  Inova Comprehensive Addiction Treatment Center |  Inova Blood Donor Services |

OBLIGATED GROUP HISTORY AND ORGANIZATION

The Members of the Obligated Group under the Master Trust Indenture are Inova Health System Foundation (“Inova”), Inova Health Care Services (the “Corporation”), Inova Health System Services (“Services”), Inova Alexandria Health Services Corporation (“Alexandria Services”), Inova Alexandria Hospital (“IAH”), Loudoun Healthcare, Inc. (“LHI”) and Loudoun Hospital Center (operating as Inova Loudoun Hospital, “ILH”). No other affiliate of Inova will be obligated at this time with respect to the Series 2008 Bonds or any Obligations issued under the Master Trust Indenture. See "Inova Health System and the Obligated Group" on page A-5. An affiliate may only become a Member of the Obligated Group in compliance with the terms of the Master Trust Indenture.

The Internal Revenue Service has determined that Inova, the Corporation, Services, Alexandria Services, IAH, LHI, and ILH are organizations described in section 501(c)(3) of the Internal Revenue Code (the “Code”).

Inova Health System Foundation

Inova, formerly known as Fairfax Hospital Association Foundation, was incorporated in 1977 as a Virginia non-stock corporation. Its original purpose was to function as a public charity as described in Sections 509(a)(1) and 170(b)(1)(A)(vii) of the Internal Revenue Code to support the Corporation. Inova continues to function as a public charity.

By virtue of the ability to elect all board members of each entity of the System as described below, Inova is the controlling entity of the System, and is responsible for long-range planning, fiscal planning, and coordination of overall operations of the System. Inova, through its Board of Trustees, also performs the following functions for the System: (1) formulates policy regarding the System's overall strategic direction and mission; (2) performs strategic and fiscal planning; (3) determines and obtains financing for the various entities within the System; (4) coordinates fund-raising activities; (5) determines and directs transfers of assets among the various entities within the System; and (6) approves major personnel actions such as the appointment of the respective chief executive officers of certain of the subsidiaries and controlled affiliates within the System.

In order to enhance the financial control and investment potential of funds held within the System, surplus funds generated from the operations of System affiliates are commingled in a common fund administered by Inova. Notwithstanding this financial management practice, Inova maintains separate accounts for each member of the System. See Liquidity and Capitalization herein.

Inova Health Care Services

In 1956, community representatives in Fairfax County caused the Corporation, initially named Fairfax Hospital Association, to be incorporated as a Virginia non-stock corporation. Its initial purpose was to build a 251-bed hospital in Fairfax County, Virginia to serve the health care

needs of Northern Virginia's growing population. The hospital, now known as Inova Fairfax Hospital, has expanded to its current bed complement of 833 acute care hospital beds.

As the population of the Northern Virginia region continued to grow, the Corporation constructed the 237-bed Inova Mount Vernon Hospital in Alexandria, Virginia in 1976, to serve the southeastern portion of Fairfax County. The Corporation acquired the 160-bed Commonwealth Hospital in the City of Fairfax, Virginia in 1976. In 1987, the Corporation also completed construction of and opened the 160-bed Inova Fair Oaks Hospital to serve the fast-growing western portion of Fairfax County. Fair Oaks Hospital replaced most of the acute care services at Commonwealth Hospital, which was converted into a nursing home.

Inova Health System Services

Services, a Virginia non-stock corporation incorporated in 1987, operates two nursing homes, Inova Commonwealth Care Center, a 134-bed facility, located on the site of the former Commonwealth Hospital in the City of Fairfax, Virginia, and Inova Cameron Glen Care Center, a 229-bed facility, located in Reston, Virginia. Services also provides assisted living, rehabilitation and other care services at the Inova Cameron Glen Care Center, Inova Commonwealth Care Center, Inova Fair Oaks and Inova Mount Vernon campuses, and in McLean, Virginia. Services also offers behavioral health, addiction treatment, rehabilitation, and home nursing services throughout Northern Virginia and the metropolitan Washington, D.C. area.

Inova Alexandria Health Services Corporation and Inova Alexandria Hospital

On March 20, 1997, Inova became the sole member of Alexandria Services. Alexandria Services is the sole member of Inova Alexandria Hospital, a 318-bed hospital located in the City of Alexandria, Virginia originally established in 1872. Both Alexandria Services and IAH joined the Obligated Group in 2002. Alexandria Services is also the sole member of Inova Alexandria Hospital Foundation, Inova Alexandria Medical Properties and Inova Alexandria Community Healthcare Group; however these entities are not part of the Obligated Group.

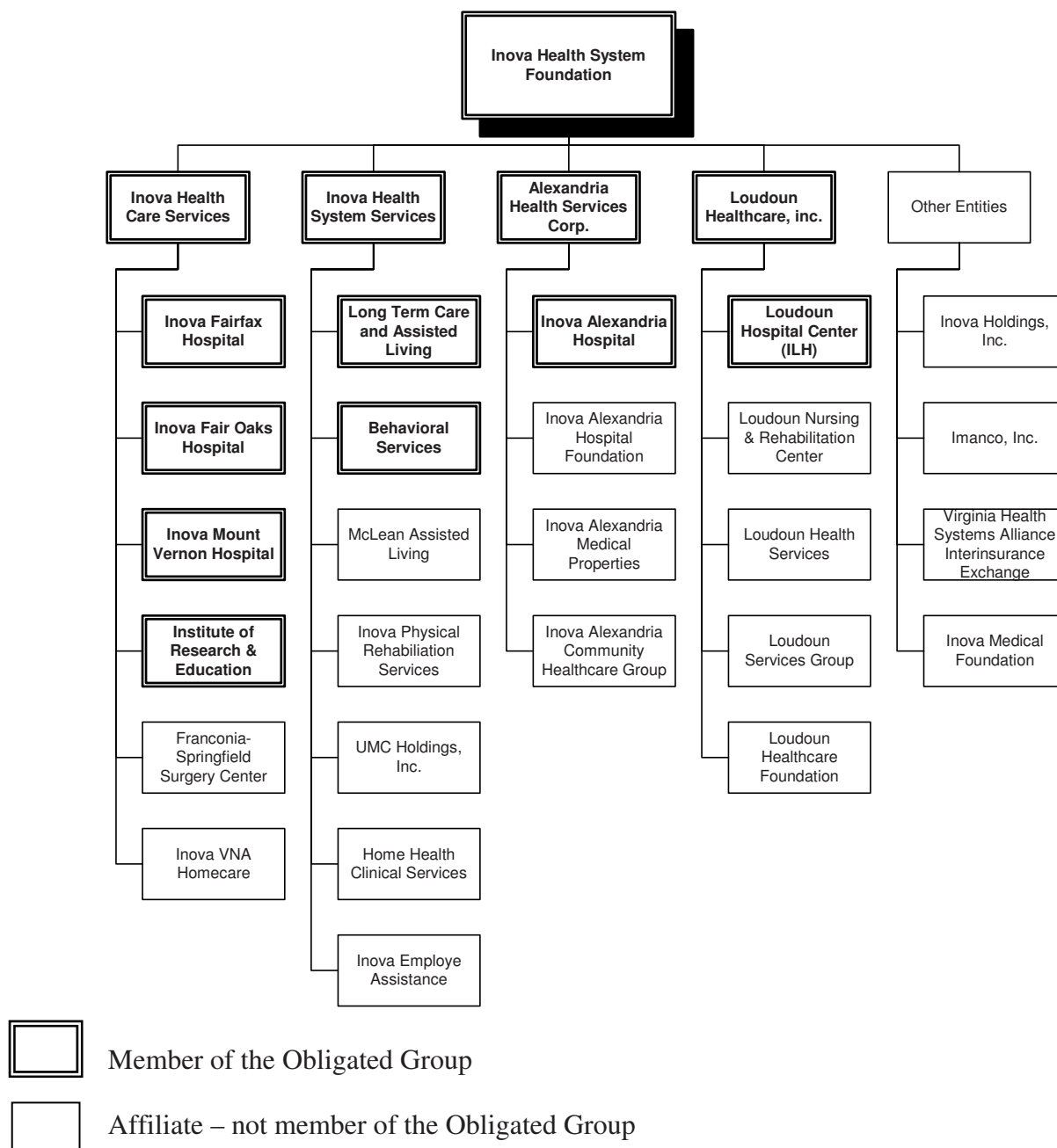
Loudoun Healthcare, Inc. and Inova Loudoun Hospital

On March 7, 2005, Inova became the sole member of Loudoun Healthcare, Incorporated. LHI and Inova are the sole members of Loudoun Hospital Center, operating as Inova Loudoun Hospital, a 155-bed acute care hospital located east of Leesburg, Virginia, founded in 1912. LHI and Inova are also the sole members of Loudoun Nursing and Rehabilitation Center, Loudoun Health Services, Loudoun Healthcare Foundation, and Loudoun Services Group, Inc. Only LHI and ILH are members of the Obligated Group.

Non-Obligated Group Affiliates

Inova owns interests in various separately incorporated entities, joint ventures, and partnerships that are defined as Affiliates under the Master Trust Indenture. These Affiliates provide, or support the delivery of health care services in the region. Affiliates that are not members of the Obligated Group accounted for no more than 4.3% of total revenues and 4.1% of total expenses of Inova and its consolidated affiliates for each of the fiscal years ended December 31, 2005, 2006, and 2007.

Inova Health System and The Obligated Group



SERVICES OFFERED BY THE SYSTEM

The System offers the entire spectrum of healthcare services, including inpatient adult medical/surgical, critical care, obstetric, pediatric, psychiatric, and rehabilitation care, emergency services, outpatient surgical and other procedures, the full range of diagnostic imaging and laboratory, outpatient rehabilitation, home health, and nursing home care, and a wide range of specialty outpatient services such as diabetes, HIV, occupational health, and extensive community education programs. Inova Fairfax Hospital, a major community teaching facility that is the largest and busiest hospital in the Commonwealth of Virginia, houses the majority of the advanced clinical specialty programs offered by the system. Each Inova hospital campus also offers special clinical programs. Inova Fairfax also is the site of the Inova Research Center and provides clinical training for third and fourth year medical students, residents and fellows, nursing students, and other allied health professionals. The majority of active-status physicians are board-certified.

The following is a profile of the major specialty services offered by the System:

Heart and Vascular

The Inova Heart and Vascular Institute (IHVI), located on the Inova Fairfax Hospital campus, is the region's first dedicated heart hospital. Open since October 2004, it houses 156 inpatient beds, 6 cardiovascular operating rooms, an 11-room cardiac catheterization and electrophysiology suite, a chest pain unit, a 64-slice CT scanner and other diagnostic testing, outpatient clinics, cardiac rehabilitation, and educational facilities. Specialty programs include pediatric cardiac surgery, arterial fibrillation, valve disease, and heart failure. IHVI brings together a multi-disciplinary team of adult and pediatric general cardiologists, sub-specialists in interventional cardiology and electrophysiology, adult and pediatric cardiothoracic surgeons, vascular surgeons, anesthesiologists, cardiac nurses, technicians, and other clinicians who collaborate in all aspects of the patient's care. There also is an active Cardiac Surgery research program.

In 2007, Inova Fairfax Hospital was recognized by US News and World Report as the 25th best heart program in the United States.

IHVI also represents the organizational framework for the delivery of heart and vascular care across the entire System. There is a dedicated administrator and a focus on the delivery of consistent, high quality care in a cost efficient manner. The use of established clinical pathways and internal risk management encourages appropriate utilization and practice consistency. Cardiac surgery and invasive cardiac catheterization procedures (angioplasty and stents) are also practiced at Inova Alexandria Hospital. All Inova hospitals provide Cardiovascular Interventional Radiology (CVIR) services, but there is a particular emphasis at Inova Alexandria. Interventional Radiology offers minimally invasive angioplasty and stenting treatments to patients with peripheral vascular conditions. All hospitals also provide basic cardiac services such as the management of chest pain and congestive heart failure.

Through the System's Community Health Division, a broad range of heart and vascular prevention and screening programs are offered.

Cancer

Inova Cancer Services is the largest provider of cancer care in the Commonwealth of Virginia and one of the largest and most comprehensive in the Washington-Baltimore metropolitan area. Inova Fairfax, Inova Alexandria, and Inova Loudoun feature full-service cancer centers, including medical and surgical oncology and radiation therapy. Inova Fair Oaks and Inova Mount Vernon offer medical and surgical oncology services. The hospital features a dedicated inpatient unit for both adult and pediatric patients. Inova Fairfax is designated by the American College of Surgeons (ACS) Commission on Cancer as a Teaching Hospital Cancer Program and Inova Alexandria has a Community Hospital Comprehensive Cancer Program designation. The rest of the Inova hospitals meet the ACS Community Hospital Cancer Program standards. There is an active cancer research program, including clinical trials and translational research.

In 2007, Inova Fairfax Hospital was recognized by US News and World Report as the 50th best cancer program in the United States.

Inova Cancer Services offers the most advanced services. Inova Fairfax has the region's only Tomotherapy HI-ARTTM system, which provides 3D imaging of a tumor prior to treatment and delivers radiation from 360 degrees. Both Inova Alexandria and Inova Fairfax offer the Varian Trilogy linear accelerator technology. Stereotactic Radiosurgery (SRS) is available at Inova Fairfax and Stereotactic Radiotherapy (SRT) is at Inova Alexandria. Inova Fairfax offers stem cell/bone marrow transplants for both adults and children. Inova Cancer Services provide the full range of imaging techniques to detect and stage cancer, as well as plan treatment. These include general radiological studies, magnetic resonance imaging (MRI), computed tomography (CT) and Positron Emission Tomography (PET). Inova Fairfax also features an Advanced Endoscopy Center, with technology such as Endoscopic Ultrasound and Photodynamic Therapy and a comprehensive Interventional Oncology Program, offering Radiofrequency Ablation (RFA) and SIR-Spheres and Theraspheres radioembolization procedures. Inova Alexandria Hospital also provides SIR-Spheres technology. For prostate cancer, robotic prostatectomy is offered at Inova Fairfax and prostate seeds are offered at Inova Alexandria, Inova Fair Oaks and Inova Fairfax. Minimally invasive surgical techniques are also offered for colon, gynecological, lung, kidney, and liver cancers.

Inova Cancer Services also offers specialized programs for specific types of cancer. The pediatric oncology program is affiliated with the Children's Oncology Group for clinical research and offers the full range of diagnostic and treatment services. The System features a Comprehensive Breast Health Center to coordinate breast cancer care across the system, including the availability of patient navigators and one of the most highly regarded Breast MRI programs in the nation. Specialty centers also are in place for Hepatobiliary Tumors (primary and metastatic liver cancer), gynecological cancers, including a significant ovarian cancer research program, and musculoskeletal tumors.

Life with Cancer® is a fully community-supported program providing services to patients and their families through various programs hosted at its Family Center and at Inova facilities throughout Northern Virginia. Programs include inpatient and outpatient visits, family meetings, educational classes and seminars, individual and family counseling and support groups, and programs to help children and teens understand and cope with the impact of cancer on themselves and/or their families.

Through the Inova Community Health Division, cancer health information and education, counseling services, and screening are offered to the community. Specialty programs include the Tobacco Cessation program and the Colorectal Cancer Partnership.

Women's and Infants Health

The System has a tradition of excellence in providing for both the inpatient and outpatient health care needs of women in the Northern Virginia community. In 2007, there were over 20,000 births across the system with over 230 affiliated OB/GYN specialists. The Inova Fairfax Hospital Women's Center was the fourth busiest obstetrical provider in the United States, with over 11,700 births. Inova Fairfax offers sub-specialty services, including a dedicated high-risk pregnancy unit, GYN oncology, and UroGynecology. State-of-the art antenatal testing centers and perinatology services to manage high risk pregnancy and lactation centers are available on all four campuses. Several groups of reproductive endocrinologists and fertility specialists also are on staff. All Inova hospitals have recently completed renovation and expansion projects for obstetrical services. Inova Fairfax Hospital is in the planning stages for a new patient tower that will co-locate services for all stages of a woman's life in a Comprehensive Women's Hospital.

In 2007, Inova Fairfax Hospital was recognized by US News and World Report as the 38th best Gynecology program in the United States.

The OB/GYN Clinic serves uninsured residents of the Fairfax/Falls Church region, with nearly 50,000 annual visits.

Inova Fairfax has a Level III Neonatal Intensive Care Unit (NICU), the highest NICU designation in the Commonwealth of Virginia, providing the most advanced tertiary services for extremely low birth weight infants, and those with complex medical conditions including congenital abnormalities. Inova Alexandria, Inova Fair Oaks, and Inova Loudoun offer Level II NICU specialty services.

Pediatrics

The Inova Fairfax Hospital for Children (IFHC) is Northern Virginia's regional pediatric referral center with 90 licensed acute care beds and more than 25 sub-specialties. IFHC offers a full spectrum of care for children with acute and chronic conditions, from the premature newborn to the young adult. There are specialists on staff to meet almost any medical need, including physicians specializing in pediatric emergency and trauma care, critical care, infectious disease, gastroenterology, pulmonary disease, cardiology, interventional cardiology, electrophysiology, cardiac surgery, hematology and oncology, neonatology, infant apnea, physical medicine,

neurology, neurosurgery, and rehabilitation services. IFHC houses Northern Virginia's only pediatric intensive care unit (PICU), which recently expanded to 16 beds, with pediatric intensivists providing 24-hour coverage for children with life-threatening illnesses or injuries. IFHC also has a dedicated pediatric emergency room, a dedicated nursing unit for the special needs of adolescents, and a dedicated hematology/oncology unit. There are two dedicated operating rooms for pediatric heart surgeries.

The Inova Pediatric Center (IPC) provides primary health care and wellness education to underinsured or uninsured children from low income families in the Fairfax/Falls Church region with over 15,000 visits per year. The IPC includes health education, nutritional counseling, social work, treatment and counseling for sexually transmitted disease, family planning, and teen health services.

The Forensic Assessment and Consultation Team was established by IFHC in 2000 to accurately diagnose incidences of child physical or sexual abuse. Other sub-specialty programs offered by IFHC include the Craniofacial Program, the International Adoption Program, and pediatric cardiac surgery.

Trauma and Emergency Services

The Inova Regional Trauma Center at Inova Fairfax Hospital (the "Trauma Center") has been designated as a Level I trauma center since 1985 and is the only center in Northern Virginia. The Inova Fairfax Hospital Emergency Department served 89,000 patients in 2007, including approximately 20,000 pediatric patients, and is the entry point for over 3,000 severely injured trauma patients. The Trauma Center's service area includes Fairfax, Falls Church, Arlington, Alexandria, Prince William, Loudoun, Stafford, Spotsylvania, Culpepper, and Fauquier County. The hospital also has a dedicated Trauma ICU.

A team of trauma responders is on call 24 hours a day, seven days a week. Board certified specialists include trauma surgeons (including those with orthopedic and neurological trauma expertise), adult and pediatric emergency physicians, specialized nurses, and an entire team of medical specialists. The Trauma Center is recognized nationally, particularly for its contributions to trauma research, injury prevention, education, and community outreach. Some examples include the Northern Virginia Injury Prevention Center, the establishment of a grant-funded Crash Injury Research Engineering Network, and the continual education of the staff and the community about issues related to trauma prevention and care. The research program reflects diversity and multi-disciplinary involvement in multiple peer-reviewed articles, book chapters, oral abstract presentations, and poster presentations given regionally and nationally.

Inova Alexandria Hospital, Inova Fair Oaks Hospital, Inova Mount Vernon Hospital and Inova Loudoun Hospital each operate 24-hour emergency departments providing a full-range of emergency and urgent care services.

Critical Care Services

There are 197 critical care beds in the System, on units ranging from medical/surgical to cardiac, cardiac surgery, neuroscience, trauma, and pediatrics. In 2004, the System became the first health care provider in the Washington D.C. area to introduce the high-tech virtual eICU patient monitoring system through which digital cameras, microphones and special software links patients in critical care units to a medical team located in Verizon's mid-Atlantic headquarters near Inova Fairfax Hospital. Without leaving its office, the eICU team conducts virtual rounds, monitoring patients' heart and respiratory rates, blood pressure and other vital signs. Team members can see and talk to the patient, even zooming in tight enough to check pupils. During an emergency, ICU staff can push a button to talk directly to the eICU team. The eICU expands the availability of specially trained intensivists to hospitals who cannot provide this coverage 24/7.

Neurosciences

The System provides comprehensive neurosciences services for adults and children. All hospitals provide basic stroke care services, and Inova Alexandria and Inova Fairfax have received special designation from the Joint Commission as a Primary Stroke Center and both have dedicated inpatient stroke units. Inova Fairfax cares for more stroke patients than any hospital in the combined region of Virginia, Maryland, and Washington, DC. Inova Fairfax also provides the highest level of interventional neuroradiology care, a highly specialized service that provides minimally invasive alternatives for patients with brain aneurysms and other cerebrovascular conditions, plus neurosurgery services for these patients. Inova Fairfax's neurosurgeons also provide advanced care for patients with malignant and benign brain and central nervous system tumors, head and spine trauma, Parkinson's Disease, congenital disorders such as spina bifida and hydrocephalus, and other spine disorders. Inova Fairfax has a 16 bed dedicated Neuroscience ICU, a stroke unit, and a general neuroscience unit. The CARF accredited rehabilitation program at Inova Mount Vernon (detailed below) has the largest neuroscience rehab program in the area, with a particular focus on stroke and traumatic brain injury. Other aspects of the neurosciences treated at all System hospitals include memory disorders such as dementia and Alzheimer's Disease, Multiple Sclerosis, Parkinson's Disease, concussion, and others. There is an active research program. Operation Stroke, our partnership with the American Heart Association, has provided community outreach and education, as well as internal performance improvement initiatives, for over a decade.

Orthopedics

All System hospitals provide orthopedic care, including sports medicine procedures, fracture care, spine surgery, and joint replacement. Inova Mount Vernon Hospital is the site of the Inova Joint Replacement Center (IJRC), a regional and national referral site for the full range of hip and knee replacement services, including the most complex revision cases and the Birmingham Hip Resurfacing procedure. In 2007, physicians practicing at the IJRC performed over 1,700 joint replacement procedures, the largest program in the three state region, and one of the largest in the country. The physicians are also actively engaged in research and education and offer a physician fellowship program.

Spine surgery is concentrated at Inova Fair Oaks, Inova Fairfax, and Inova Alexandria and the System's surgeons have special expertise in the most advanced minimally invasive spine procedures.

Transplant

The Inova Transplant Center at Inova Fairfax Hospital was established over two decades ago in 1986 to provide high quality health care to adult and pediatric patients needing transplant services. The Transplant Center is one of the few non university hospital sites in the United States that offers almost the entire spectrum of solid organ transplantation, including heart, lung, heart-lung, kidney, and kidney-pancreas, plus a bone marrow transplant program. The Center performed the Washington DC metropolitan area's first successful heart transplant in 1986, the first bone marrow transplant in Northern Virginia in 1987, and the first local lung transplant in 1991. In 1997, the Transplant Center was the first to perform a heart-double lung transplant. There is an active living donor kidney transplant program. Quality is measured by its one-year graft and patient survival rates, both of which exceed national averages. Each organ program has a medical director and there is a dedicated clinic providing each patient and family with individualized treatment and education, including support groups.

Rehabilitation

The Inova Rehabilitation Center at Inova Mount Vernon Hospital is accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF). It has 67 licensed inpatient beds and provides comprehensive inpatient and outpatient medical rehabilitation to patients with severe traumatic brain injuries, spinal cord injuries, stroke, multiple sclerosis, Guillain Barre syndrome, and other complex disorders. The outpatient Bridge program focuses on patients with neurological deficits.

All System hospitals, as well as several freestanding physical therapy centers, provide outpatient rehabilitation services for patients with orthopedic and neurologic disorders. Other areas of specialty include certified lymphedema and hand therapy specialists.

The Hazel E. R. Widner Low Vision Center is a comprehensive rehabilitation program to help patients with low vision use their remaining vision to its maximum potential so they can maintain normal daily activities. The multi-disciplinary team of a low vision optometrist and an occupational therapist devises an individualized plan and also connects patients with community resources.

Cardiac Rehabilitation services are located in the Inova Heart and Vascular Institute building at Inova Fairfax Hospital, Inova Mount Vernon, Inova Alexandria, and Inova Loudoun. Cardiac Rehabilitation programs are designed to help people who have been diagnosed with or who are at risk for heart disease. In cardiac rehabilitation, patients gradually increase their physical endurance levels through supervised exercise, learn to make healthy lifestyle choices, including dietary guidance, and manage their own risk factors.

Behavioral Health Services

The System's inpatient psychiatric services are provided at Inova Fairfax (34 beds), Inova Mount Vernon (30 beds), and Inova Loudoun (22 beds) hospitals. The hospitals provide inpatient services for adults, as well as extensive outpatient and day treatment programs. Inova Fairfax also has been the site of a consultation-liaison psychiatry fellowship for over three decades, and is known for its psychiatric consultation services with patients hospitalized with cancer, organ transplantation, HIV, geriatric medicine, OB/GYN and pulmonary conditions.

Inova Comprehensive Addiction Treatment Services (CATS), located on the Inova Fairfax campus, offers help to people suffering from alcoholism or other chemical dependency. A full continuum of treatment services is available, including medically supervised inpatient detoxification, day treatment, short-term inpatient rehabilitation, and outpatient treatment. All CATS programs emphasize family centered care, education and relapse prevention.

Inova Kellar Center, located in Fairfax, Virginia, is an outpatient mental health and substance abuse treatment center for children, adolescents and their families. It recently opened a brand new facility. Services include Day Treatment, Evening Intensive Substance Abuse Program, In-Home Services, the Abused Children's Treatment Services, Attention and Learning Disorders Services and Intensive Family Therapy Services. The Kellar School is a therapeutic day school with the capacity to serve 56 middle and high school students. Typically, the students have not been successful in their base school programs, or they are making the transition from hospitalization or residential treatment back to school. Students may have learning, social, emotional and/or behavioral problems that significantly interfere with their ability to learn. The Kellar School program focuses on academic achievement and psychosocial growth both aimed at providing students with a successful academic experience.

Other Specialty Inpatient and Outpatient Medical and Surgical Programs

Bariatric Surgery – The weight loss surgery program at Inova Fair Oaks Hospital has been recognized as a Bariatric Surgery Center of Excellence by the American Society for Bariatric Surgery (ASBS). The ASBS Center of Excellence program was created to recognize bariatric surgery centers that perform well and to help surgeons and hospitals continue to improve the quality and safety of care provided. Clinical evidence shows that the most experienced and best-run programs have by far the lowest rates of complications. Patients having their surgery at Inova Fair Oaks also participate in support groups, and receive nutritional counseling and other services designed for a successful outcome. Surgeons at Inova Fairfax also have expertise in bariatric surgery.

Gastroenterology and Digestive Disorders – The System features the most advanced technology in state of the art gastroenterology procedure suites to diagnose and treat patients with all types of digestive system conditions, and features several specialty programs. Inova Alexandria Hospital offers a specialized Heartburn Treatment Center, combining the expertise of gastroenterologists, surgeons, pulmonary physicians, and ear nose and throat specialists. Advanced diagnostics such as esophageal manometry and minimally invasive surgical procedures are provided.

Inova Fairfax Hospital was recognized in 2007 by US News and World Reports as the nation's 28th best program for Digestive Disorders.

The Inova Fairfax Hospital Center for Liver Diseases offers comprehensive services to patients with acute, chronic, and end-stage liver diseases. These consultative services are achieved through a well coordinated team of hepatology experts working within the Center for Liver Diseases. Staffing for the Center for Liver Diseases consists of board-certified gastroenterologists/hepatologists, nurse practitioners, clinical nurse coordinators and a nurse manager. The Center provides comprehensive, multidisciplinary evaluation of a variety of liver diseases, management of chronic viral hepatitis (Hepatitis B and C) with the state of the art medical therapies, a multidisciplinary approach to the management of liver cancer, treatment for complications from cirrhosis, and clinical research in liver diseases (hepatitis B, C and non-alcoholic fatty liver disease). Inova Fairfax also is a regional referral site for pediatric gastroenterology.

The Dorothea R. Fisher Wound Healing Center and Hyperbaric Oxygen Therapy – Located at Inova Mount Vernon Hospital, these were the first programs of their kind in Northern Virginia. Advanced therapies and individual treatment plans are available to serve patients with chronic, non-healing wounds. The Hyperbaric Oxygen Therapy (HBOT) unit provides care for patients suffering from conditions such as carbon monoxide poisoning, chronic bone infections and radiation injury, as well as wound care patients. The HBOT unit has received national accreditation from the Undersea and Hyperbaric Medical Society, one of the few in the nation to receive that honor.

Inova Juniper Program – HIV Clinical and Education Services – Administered by Inova Fairfax Hospital, the Inova Juniper Program (IJP) was organized two decades ago in 1988 to strategically address the health care needs of persons living with HIV disease in Northern Virginia. Approximately 60% of patients are medically indigent and the program is 80% funded through grants and other fundraising efforts. Clinical services at IJP provide comprehensive case management and primary and specialty medical care, including mental health and substance abuse counseling and nutritional counseling. Programs are provided in a manner that strives to preserve the dignity of all individuals regardless of their sex, race, ethnic background, sexual orientation, religious preference, financial status, or insurance coverage. The emphasis is on enhancing the quality of life, promoting health, and ensuring a positive difference in patients' lives. The educational component focuses on quality education services for health care providers. The Northern Virginia Local Performance Site of the Pennsylvania/Mid Atlantic AIDS Education and Training Center provides education programs, clinical consultations, technical assistance and library services to health care providers and students throughout Virginia.

Endocrinology and Diabetes Care – Inova Fairfax Hospital was recognized by US News and World Reports as the nation's 40th best endocrinology program. The Inova Diabetes Center, with outpatient locations located across the region, provides treatment programs, classes, consultations and support groups for patients with diabetes, led by certified diabetes educators (nurses and dieticians).

Sleep Disorders – Inova Fair Oaks and Inova Alexandria hospitals provide comprehensive sleep evaluations for patients suffering from sleep apnea, insomnia, chronic fatigue, and other problems associated with sleep disorders.

Diagnostic Imaging and Laboratory Services – The System is focusing on enhancing the availability of the full range of outpatient imaging services on its hospital campuses, as well as in freestanding locations in Reston, Leesburg, Fairfax, and Springfield. The System operates 14 MRI scanners and 19 CT scanners, offers a PET/CT scanner and mobile PET scanning services. Other services include DEXA (bone densitometry), nuclear medicine, ultrasonography, mammography, and stereotactic breast biopsy.

Laboratory services are available on each hospital campus to serve inpatients and outpatients. The Inova Reference Laboratory also offers our community physicians and their patients, regardless of where they are, access to comprehensive laboratory testing in six service centers spread across Northern Virginia.

Workplace Health Services – Inova Occupational Health Services is a comprehensive program designed to meet the demanding needs of employers and employees in industry, government, and the service sector. Programs are customized for each employer client to maximize employee productivity and encourage effective and economical health care use while investing in services that keep the work environment safe and accident-free. Services include pre-employment physicals, workers compensation injury management, and alcohol and drug testing.

Inova Employee Assistance (EAP) has been dedicated to serving the employer community since 1981. Services include face-to-face assessment, short-term counseling and referral services to employees and their household members for a myriad of personal problems. EAP also offers a suite of work life services through a relationship with WorkPlace Options located in Raleigh, NC that provides legal, financial and identity theft consultations; referrals for child care, elder care, pet care, health & wellness resources, educational resources and convenience or daily living referrals

Health Education and Wellness Services – Inova Healthsource offers a variety of health education, wellness and fitness classes and prevention programs throughout the Northern Virginia and Washington, D.C., metro area. Examples of special programs include the Fight the Flu campaign, four care management programs (Inova BabyNET, Inova BackNET, Inova TobaccoNET and Inova WeightNET), and a comprehensive tobacco education and cessation program. HealthSource also provides services customized to the needs of local employers. HealthSource has over 150,000 participants in its education and outreach efforts annually.

Research and Medical Education

Research and academic activities are centered on the Inova Fairfax Campus. In 2005, the Inova campus of the Virginia Commonwealth University School of Medicine opened and a total of 48 third and fourth year medical students now spend their clerkship years at Inova Fairfax. In January 2008, the Claude Moore Health Education Center opened on the campus of Inova Fairfax Hospital. The building features 11,000 square feet of modern space dedicated to the

educational needs of medical and nursing students and residents and fellows. This state-of-the-art center includes both medical and surgical simulation centers, enabling students to learn through hands-on experience. In addition, the center is proud to offer high-tech information technology that allows students who travel or live outside of the region to receive a seamless medical education from anywhere in Virginia. The fourth floor of the building will be outfitted as a dedicated research floor to support the extensive activities of the Inova Research Center, where there are numerous active clinical trials, translational research, and outcomes projects ongoing, many in partnership with universities and other research entities.

Long Term Care Services

The System operates three long-term care facilities: Inova Cameron Glen Care Center, Inova Commonwealth Care Center, and Loudoun Nursing and Rehabilitation Center. Each facility provides intermediate and skilled nursing care, rehabilitation, and a secure Alzheimer's unit. The Cameron Glen facility also features an assisted living facility, an intergenerational program with an adjacent child care center, and a 24-bed subacute unit specializing in the care of head and spinal cord injuries, ventilator dependency and medically complex conditions such as HIV.

Home Health Care

Inova VNA Home Health provides quality health care services directly in the comfort of the patient's own home. Our services include skilled nursing care, rehabilitation, IV therapy, maternal/child and pediatric services, and assistance from medical social workers and home health aides for patients of all ages who are suffering from acute or chronic illnesses or recovering from surgeries, accidents or injuries.

Assisted Living

Inova Health System and Sunrise Assisted Living, a public company headquartered in McLean, VA, formed an affiliation in 1998 to bring together the health care and care management expertise of Inova with the hospitality and assisted living expertise of Sunrise. Inova currently owns five assisted living homes in Reston, Fair Oaks, Fairfax, McLean and Mount Vernon. Sunrise develops and manages these communities. The facilities offer 24-hour nursing care, a full range of activities, and full meal service.

Inova Health System Distribution of Beds by Service and Facility

	Inova Fairfax Hospital	Inova Alexandria Hospital	Inova Mount Vernon Hospital	Inova Fair Oaks Hospital	Inova Loudoun Hospital	Total
Acute	494	211	120	118	91	1,034
Pediatrics	74	19		8	7	108
ICU/CCU	104	48	20	12	11	195
O/B	127	40		44	24	235
NICU (1)	75	16		14	7	112
Crib/Bassinets (1)	100	32		63	24	219
Psychiatric	34		30		22	86
Rehabilitation			67			67
Total Acute Care Beds	1,008	366	237	259	186	2,056

	Inova Cameron Glen Care Center	Inova Common- wealth Care Center	Loudoun Nursing and Re- habilitation Center (3)	Inova Assisted Living at George Mason	Inova Assisted Living at Reston Town Center	Inova Assisted Living at Fair Oaks	Inova Assisted Living at Mt. Vernon	Inova Assisted Living at McLean (3)
Nursing Home (beds):								
Skilled Nursing	173	55	32					
Intermediate Nursing		82	68					
Home for Adults	61							
Sub-Acute								
Assisted Living (units)				48	89	92	85	88
Total Beds or Units (2)	234	137	100	48	89	92	85	88

Source: Inova Records

- (1) NICU and newborn bassinets are not included in adult bed licenses.
- (2) Beds in service are presented for each long term care facility.
- (3) Not a Member of the Obligated Group.

ACCREDITATIONS, AFFILIATIONS, AND MEMBERSHIPS

The five operating hospitals and three long-term care facilities of the System are fully accredited by the Joint Commission on Accreditation of Health Care Organizations and licensed by the Virginia Department of Health. The Inova Cancer Center at Fairfax Hospital is fully accredited as a teaching hospital cancer center of the American College of Surgeons. In addition, affiliations for graduate medical education have been entered into by the Corporation as follows:

<p>Georgetown University (Residents)</p> <ul style="list-style-type: none"> - General Surgery - Internal Medicine - Ophthalmology - Orthopedics - Pediatrics - Plastic Surgery - Psychiatry - Pulmonary Disease Transplant - Transitional 	<p>Armed Services (Bethesda, Walter Reed, DeWitt)</p> <ul style="list-style-type: none"> - Family Practice - General Surgery - Obstetrics - Orthopaedics - Pulmonary Disease Transplant - Transitional (to Emergency Medicine)
<p>George Washington University (Residents)</p> <ul style="list-style-type: none"> - Emergency Medicine - Neurosurgery - Obstetrics - Urology - Pulmonary Disease Transplant 	<p>National Institute of Health</p> <ul style="list-style-type: none"> - Internal Medicine – Critical Care
<p>Medical College of Virginia</p> <ul style="list-style-type: none"> - Family Practice 	<p>Howard University</p> <ul style="list-style-type: none"> - General Surgery - Pulmonary Disease Transplant <p>University of Virginia</p> <ul style="list-style-type: none"> - Anesthesiology

Training of nursing students is also provided through affiliations between the Corporation and George Mason University, Northern Virginia Community College and Marymount University.

In 2004, Inova became a member of MedAssets, one of the country's largest group purchasing and supply chain organizations. MedAssets serves more than 22,000 health care providers. This business partnership allows Inova a flexible and customized supply chain model of vendor contracts to be built around Inova's unique supply portfolio to support clinicians.

The Inova campus of Virginia Commonwealth University (VCU) Medical School opened at Inova Fairfax Hospital in 2005. The VCU School of Pharmacy Inova campus opened in 2007.

GOVERNANCE

The Inova Health System Foundation Board of Trustees currently has 17 members. Sixteen of the members of the Board of Trustees are nominated and elected by the existing Board provided, however, that one of the elected Trustees shall be a member of the Board of Trustees of Inova Health Care Services. At least two members of the Board of Trustees shall either reside or work in Loudoun County, Virginia and, preferably, will be current or past members of the Board of Directors of Loudoun Healthcare, Inc. In addition, the members elected by the Board of Trustees shall include one person designated by the Fairfax County Board of Supervisors for election to the Board of Trustees.

All trustees are elected annually. Members of the Board of Trustees may serve concurrent terms on the other governing boards of the Corporation or of other affiliates within the System. The Inova Board appoints the members of all other boards affiliated with the System, including the boards of Inova Health Care Services, Inova Health System Services, Inova Alexandria Health Services Corporation, Inova Alexandria Hospital, Loudoun Healthcare, Inc., and Inova Loudoun Hospital. The Inova Board of Trustees also maintains broad authority over the policies and operations of the other entities in the System. See “OBLIGATED GROUP HISTORY AND ORGANIZATION – Inova Health System Foundation” above.

The Board of Trustees of Inova Health Care Services governs the operations and services of the Corporation with certain powers reserved to Inova. The Corporation’s Board consists of no more than thirty and no less than eleven individuals. There are several designated membership positions: President of Inova, Presidents of the medical staffs of the System’s five hospitals, Chairman of the Inova Medical Affairs Council, and two members from the Fairfax County Board of Supervisors. The Inova Board of Trustees elects other members of the Board of Trustees from the community. The President of Inova acts as the President of the Corporation.

Inova Health System Foundation Board of Trustees

Board Member	Occupation	Years of Board Service
Stephen M. Cumbie, Vice Chairman	President, N.V. Commercial	14
John M. Toups, Chairman	Retired President and Chief Executive Officer, Planning Research Corporation	14
J. Knox Singleton, President	President and Chief Executive Officer, Inova Health System Foundation	24
Nicholas Carosi, Treasurer	President, Arban & Carosi, Inc.	19

Carl Biggs, Secretary	President, C&E Services, Inc.	4
Jack Ebeler	President & CEO, Ebeler Consulting	1
Penny Gross	Member, Fairfax County Board of Supervisors	1
J. Michael Kelly	President, Kelly Management Group	8
Mark Lowers	President and Chief Executive Officer, Lowers & Associates	4
Shawn P. McLaughlin	Broker, McLaughlin Investments, LLC	8
Lori Morris	Alexandria resident	2
Buzz Smith	President, Blue Ridge Advisors, LLC	2
Mark Stavish	President and General Manager, Evergreen Partners, LLC	4
Maura Sughrue, M.D.	Physician, Family Practice	1
George Tawil, M.D.	Physician, Urology	1
Lydia Thomas, Ph.D.	Retired President and CEO, Noblis	2
Winston Ueno, M.D.	Physician, Hematology and Oncology	4

EXECUTIVE MANAGEMENT

Key management officers of Inova, the Corporation, Services, Alexandria Services, and Loudoun are listed below. Each of the key management officers is an employee of Imanco, an affiliate of the System which provides executive management, consulting, and employee leasing services to the System. Executives serve in their current position pursuant to the terms and provisions of a management contract between Imanco and the designated Inova entity.

J. KNOX SINGLETON, President and Chief Executive Officer, Inova Health System Foundation. (Age 59) Education: M.H.A., Duke University; B.S., University of North Carolina. Previous Experience: 1987 to Present, President, Inova Health System Foundation; 1984 to 1987, President, Fairfax Hospital Association; 1983 to 1984, Executive Vice President, Fairfax Hospital Association; 1978 to 1983, Hospital Director, The Milton S. Hershey Medical Center of the Pennsylvania State University, Hershey, Pennsylvania; 1977 to 1978, Associate Hospital Director, The Milton S. Hershey Medical Center of the Pennsylvania State University; 1975 to 1977, Assistant Hospital Director, The Milton S. Hershey Medical Center of the Pennsylvania State University.

MARK STAUDER, Chief Operating Officer, Inova Health System Foundation. (Age 53) Education: M.H.A., St. Louis University; B.S., University of Missouri - Kansas City. Previous Experience: 2006 to present, Chief Operating Officer, Inova Health System Foundation; 2001 to 2006, Chief Operating Officer, St. John's Mercy Health Care; 1979 to 2001, Various Positions, Sisters of Mercy.

RICHARD C. MAGENHEIMER, Chief Financial Officer, Inova Health System Foundation. (Age 54) Education: M.S., State University of New York at Binghamton; B.S., University of South Carolina. Previous Experience: 1994 to Present, Senior Vice President and Chief Financial Officer, Inova Health System Foundation; 1987 to 1994, Vice President of Financial Operations, Inova Health System Foundation; 1986 to 1987, Vice President/Corporate Director of Financial Controls, American Medical International, Inc. ("AMI"), Corporate Offices, Beverly Hills, California; 1983 to 1986, Vice President/Director Finance, AMI Western Region, Anaheim California; 1979 to 1983, Assistant Vice President/Director of Budgeting, AMI, Western Region, Anaheim, California.

JAMES HUGHES, Chief Corporate Services Officer, Inova Health System Foundation. (Age 64) Education: J.D. and M.A., University of Maryland; B.A., Rutgers University. Previous Experience: 2002 to Present, Chief Corporate Services Officer, Inova Health System Foundation; 1996 to 2002, Senior Vice President and General Counsel, Inova Health System; 1991 to 1996, Partner, Dickstein, Shapiro & Morin, Washington D.C.; 1989 to 1991, President and Chief Executive Officer, C3, Inc.; 1977 to 1989, Corporate Vice President and General Counsel, BDM International.

H. PATRICK WALTERS, Executive Vice President, Hospitals and System Development, Inova Health System Foundation. (Age 57) Education: M.B.A., George Mason University; B.S., George Mason University. Previous Experience: 1999 to Present, Executive Vice President, Hospitals and System Development, Inova Health System Foundation; 1997 to 1999, Vice President, Inova Health System Foundation, Administrator, Inova Alexandria and Mount Vernon Hospitals; 1992 to 1997, President and Chief Executive Officer, Alexandria Hospital and Alexandria Health Services Corporation, Alexandria, VA; 1988 to 1992, Vice President Finance and Administrative Services, Alexandria Hospital, Alexandria, VA; 1985 to 1988, Executive Vice President, National Hospital for Orthopedics & Rehabilitation, Arlington, VA; 1981 to 1985, Assistant Administrator/Finance, National Hospital for Orthopedics & Rehabilitation, Arlington, VA; 1980 to 1981, Controller, Alexandria Hospital, Alexandria, VA; 1974 to 1980, Chief Accountant, Prince William Hospital, Manassas, VA.

L. REUVEN PASTERNAK, MD, MPH, MBA, CEO, Inova Fairfax Hospital Campus, Executive Vice President, Academic Affairs, Inova Health System (beginning March 31, 2008). (Age 57) Education: M.B.A., Sellinger School of Business, Loyola College of Maryland; M.P.H., University of North Carolina School of Public Health; M.D., Duke University School of Medicine; B.A., Johns Hopkins University. Previous Experience: 2005 to 2007, Executive Vice President and Chief Medical Officer, The Health Alliance of Greater Cincinnati; 1997 to 2005, Johns Hopkins School of Medicine, 2001-2005, Vice Dean, Bayview Campus, Clinical Practice Association, 1994-2005, The Johns Hopkins Bayview Physicians, PA, 1994-2001, President, 1999-2001, Chairman Department of Anesthesiology, 1994-2005; The Johns Hopkins Hospital, 1985-1994.

RODNEY N. HUEBBERS, Executive Vice President, Inova Health System. (Age 53) Education: Fellowship in Community Health, Leadership Institute of the Health Care Forum, San Francisco, CA, M.B.A Health Care Administration, Bryant College, Smithfield, Rhode Island, B.S. Pharmacy, University of Rhode Island. Previous Experience: 2005 to present, Senior Vice President, Loudoun Healthcare; 2000 to 2005, President and Chief Executive Officer, Loudoun Hospital Center; 1995 to 2000, Chief Executive Officer, Putnam Center, Inc. Health System, Carmel, NY; Senior Vice President, Winchester Hospital Health System, Winchester, MA.

KYLANNE GREEN SILVERSTONE, Chief Administrative Officer, Inova Health System. (Age 56) Education: A.A.S.D.N., Northern Virginia Community College. Previous Experience: 2006 to Present, Chief Administrative Officer, Inova Health System Foundation; 2002 to 2006, Senior Vice President, Continuum of Care, Inova Health Care Services; 1999 to 2002 Assistant Vice President, Managed Care, Inova Health Care Services; 1998 to 1999, Senior Consultant, PriceWaterhouseCoopers, Washington D.C.; 1991 to 1998, Chief Operating Officer, and Various Positions, Health Insurance Association of America, Washington D.C.; 1989 to 1991, Executive Director, Aetna Health Plans of the Mid Atlantic, Fairfax Virginia; 1978 to 1989, Regional Administrator and Various Positions, Kaiser Foundation Health Plan of the Mid Atlantic, Washington, D.C.; 1973 to 1978, Nurse Practitioner, Kaiser Foundation Health Plan of Colorado, Denver Colorado.

STEPHEN MOORE, Senior Vice President, Inova Health System. (Age 54) Education: B.S., University of Maine; M.D., Tufts University School of Medicine. Previous experience: 2005 to present, Senior Vice President, Quality & Safety, Inova Health System; 2003 to 2005, Vice President, Medical Management, Chief Medical Officer, Carolinas Health Care System Charlotte, North Carolina; 1999 to 2003, Chief Medical Officer, Bon Secours Health System, Hampton Roads, Virginia; 1996 to 1999, Utilization Review and Medical Management Director, Southeastern IPA of Virginia; 1995 to 1999, Board Member, Southeastern IPA of Virginia (Physician Contracting arm of Sentara Health Insurance Plans); 1992 to 1999, Sentara Medical Group – Family Practice, Hampton, Virginia.

MEDICAL STAFF

All practitioners who are members of the medical staffs of the System's five operating hospitals, which may include physicians, oral surgeons, dentists and podiatrists, are required to be licensed to practice in the Commonwealth of Virginia. In order to become members of those medical staffs, applicants must document their background, experience, training, competence, health status, adherence to the ethics of the profession, and their ability to work with others. Applicants must be board-certified or board-eligible by training in the specialty for which they are applying. Board-eligible is defined as having completed the prescribed formal training in an approved program which will allow the applicant to take the board examination once the applicable experience or practice requirement is fulfilled. To maintain eligibility for medical staff membership, the continuing medical educational requirements as established by the various specialty boards must be met. Additionally, under the applicable medical staff by-laws, all medical staff members at the System's hospitals are required to have malpractice insurance in a per claim amount equal to the medical malpractice damage cap in the Commonwealth of Virginia with yearly aggregate limits equal to three times the per claim amount. Currently the requirement is \$1.93 million per claim, \$5.78 million in the yearly aggregate.

There are three major categories of medical staff members that have privileges to admit and attend patients in the System's hospitals: Active, Associate and Courtesy. The Active Staff consists of practitioners who have met the basic qualifications for staff membership, who have been members of the Associate Staff for at least twelve months, and who regularly admit patients to one or more of the System's hospitals. The Associate Staff consists of practitioners who have met the basic qualifications for staff membership and have admitting privileges, but who are generally serving in their first year on the medical staff of at least one of the System's five hospitals. The Courtesy Staff consists of practitioners who have met the basic qualifications for staff membership, but who do not wish to become members of either the Active or Associate Staff. The Courtesy Staff members generally can admit and/or attend no more than 12 patients per year.

An analysis of key characteristics of Active Staff members at the System's five hospitals is highlighted in the following table:

**The System's Medical Staff
as of December 31, 2007**

	Inova Fairfax Hospital	Inova Fair Oaks Hospital	Inova Mt. Vernon Hospital	Inova Alexandria Hospital	Inova Loudoun Hospital
Number of Active/Assoc staff physicians ¹	1739	582	242	450	311
Number of Courtesy staff physicians ¹	496	408	60	90	265
Percent of Board Certified Active/Assoc staff physicians	88%	84%	86%	89%	92%
Average age (years) of Active/Assoc staff physicians	49	47	50	49	44
Percent of Active/Assoc staff physicians over age 60	16%	8.9%	19.4%	16.9%	7%
Net additions (deletions) to Active/Assoc staff from Jan-07 to Dec-07	58	47	13	58	79

¹ Approximately 35% of physicians are on the staff at more than one facility

Source: Inova Records

EMPLOYEES

As of December 31, 2007, the System, through its constituent entities, employed a total of approximately 13,045 full-time equivalent employees ("FTE's") of which approximately 12,473 are employed by the members of the Obligated Group.

Except as described below, none of the employees of the System currently are subject to collective bargaining agreements. In 2000, physical, speech and occupational therapists employed by Inova VNA Home Care, a separately incorporated affiliate of the Corporation, voted to form a union. A collective bargaining agreement was ratified on January 1, 2002. The current contract expired on December 31, 2007. Inova and the bargaining unit have reached an agreement on a new three-year contract. Fifty therapists employed by Inova VNA are currently covered under this agreement. This entity is not part of the Obligated Group. The System believes that all relations with employees are currently in good standing.

The Members of the Obligated Group provide basic medical, major-medical, vision, dental and health/dismemberment benefits to current and, in some cases, retired employees. The System also provides various retirement income plans that cover the employees of the Members of the Obligated Group, as well as certain other Inova affiliates. The plans include a defined benefit plan and defined contribution plans with employee matching features. For more information regarding the Plans, see Note I of "Notes to Combined Financial Statements" in Appendix B of the Official Statement.

SERVICE AREA

The primary service area for the System, as determined through past analyses of patient origin information, consists of Fairfax, Loudoun, Northern Prince William, and Southern Arlington Counties and the independent Cities of Alexandria, Manassas, Manassas Park and Falls Church, Virginia. The System also serves the secondary service area of Fauquier, Northern Stafford, Southern Prince William, and Northern Arlington Counties in Virginia and tertiary service area of Clarke, Warren, Rappahannock, Culpeper, Spotsylvania, and Southwestern Stafford Counties in Virginia, Montgomery and Prince George's Counties in Maryland, and Jefferson County in West Virginia.

The System's service area has been expanding into the greater metropolitan Washington, D.C. area and into other areas in Virginia and Maryland contiguous to the System's historical service area. Inova Fairfax Hospital's tertiary care and specialty medical programs draw patients from greater distances than once was the case. The Inova Joint Replacement Center and Inova Rehabilitation Center at Inova Mount Vernon Hospital and Bariatric Surgery Center at Inova Fair Oaks Hospital all enjoy a significant draw of patients from beyond Inova's primary service area.

DEMOGRAPHIC INFORMATION

The largest jurisdiction within the System's service area is Fairfax County, one of the fastest growing areas in the nation. In addition, Fairfax County's population is one of the most affluent and well educated in the country.

Population

Fairfax County is the most populated jurisdiction in the Commonwealth of Virginia with an estimated 2006 population of 1,010,500 representing over 13 percent of the Commonwealth's total population of 7.7 million. It is the largest jurisdiction in the metropolitan Washington, D.C. area (ahead of the District of Columbia and the contiguous Maryland suburban counties). Loudoun County's estimated 2006 population is 269,000, which represents 3.5 percent of the Commonwealth's total population. Both counties are projected to add more than 250,000 residents between 2005 and 2015, in absolute terms more than any other county in the region.

Historical Growth

Fairfax County, Virginia has grown at a faster rate than the metropolitan Washington, D.C. area as a whole. In 2004, Loudoun County was ranked as the fastest growing county in the nation. While the entire region experienced almost a doubling of the population during the period from 1950-1980, Fairfax County's population increased by a factor of six during that same period. Loudoun County's growth has been more recent, with nearly a tripling of population from 1980 to 2000. In 1950, about one out of every fifteen persons who resided in the Washington Primary Metropolitan Statistical Area ("PMSA") made their home in Fairfax or Loudoun County. Since 1980, approximately one of every five people in the region lives in Fairfax and Loudoun Counties.

Fairfax County, Loudoun County, and Washington PMSA, 1950 to 2006

<u>Year</u>	<u>Fairfax County</u>	<u>Loudoun County</u>	<u>Washington PMSA</u>	<u>Fairfax and Loudoun Counties % of PMSA</u>
1950	98,557	21,147	1,752,248	6.8%
1960	248,897	24,549	2,376,307	11.5%
1970	454,275	37,150	3,204,852	15.3%
1980	596,901	57,427	3,477,972	18.8%
1990	818,584	86,129	4,223,485	21.4%
2000	969,749	169,599	4,923,153	23.1%
2006	1,010,443	268,817	5,454,336	23.5%

Source: U.S. Census

Future Growth

The following 2010 and 2015 population projections indicate that Fairfax County is expected to remain the most heavily populated jurisdiction in the metropolitan Washington, D.C. area. Moreover, in excess of 20 percent of the Washington D.C. metropolitan area's population resides in Fairfax County. Between 2005 and 2015, Fairfax County is projected to add the largest number of residents, in absolute terms, and Loudoun County is expected to grow by the greatest percentage, of any jurisdiction in the metropolitan Washington, D.C. area.

Population – Washington D.C. Area, 2005 to 2015

	Population in Thousands			Change
<u>Jurisdiction</u>	<u>2005</u>	<u>2010</u>	<u>2015</u>	<u>2005 to 2015</u>
Fairfax County/Fairfax City (1)	1,065.8	1,159.0	1,239.4	173.6
Falls Church City (1)	10.6	12.3	13.9	3.3
Alexandria City	135.9	142.6	149.8	13.9
Arlington County	199.3	217.2	226.9	27.6
Prince William County	349.4	415.8	463.3	113.9
Loudoun County	247.3	301.1	354.1	106.8
Manassas City/Manassas Park City	50.5	53.6	56.1	5.6
Montgomery County, MD	997.6	1,057.5	1,108.7	111.1
Prince George's County, MD	852.9	900.8	936.9	84.0
District of Columbia	577.8	601.1	626.6	48.8
Total D.C. Area	4,487.1	4,861.0	5,175.7	688.6

(1) Located within the political boundaries of Fairfax County, Virginia.

Source: Metropolitan Washington Council of Governments, Round 7.1, Spring 2008

Other Economic Factors

Set forth below are employment and household income statistics pertaining to Fairfax County, Virginia:

Employment Within Fairfax County and Loudoun County by Industry:

Fairfax County has a large and diversified industry base with over 31,000 businesses employing approximately 575,000 positions. Inova Health System is the largest private employer in the county. Leading industries include government and defense technology, commercial IT, financial services, software, communications and technology management service providers.

Loudoun County has a growing industry base with over 7,000 businesses and nearly 125,000 jobs. Inova Loudoun Hospital is one of the largest private employers. The mix of industries is similar to Fairfax County, but also includes a significant amount of air transportation due to the presence of Washington Dulles International Airport.

As of December 2007, according to the Virginia Economic Commission, the unemployment rate for Fairfax County was 2.2% and the unemployment rate for Loudoun County was 2.4%. Statewide, the December 2007 unemployment rate was 3.3%. Nationally, the unemployment rate was at 4.9% in January 2008, according to the Bureau of Labor Statistics.

Fairfax County and Loudoun County – Employment by Industry

Industry Super-Sector – 4th Quarter 2006	Fairfax	Loudoun	Total	% of Total
Professional, Scientific & Technical Services	145,714	12,780	158,494	22%
Retail Trade	57,529	16,482	74,011	10%
Health Care & Social Assistance	46,795	7,729	54,524	8%
Education Services	44,408	10,523	54,931	8%
Admin, Support, Waste Management, Remediation	40,089	6,882	46,971	7%
Accommodation & Food Services	37,495	9,984	47,479	7%
Construction	34,676	15,669	50,345	7%
Information	28,930	8,797	37,727	5%
Finance & Insurance	25,285	2,563	27,848	4%
Public Administration	21,876	5,656	27,532	4%
Other Services	20,295	4,311	24,606	3%
Management of Companies & Enterprises	18,848	932	19,780	3%
Wholesale Trade	15,578	3,329	18,907	3%
Manufacturing	11,103	4,998	16,101	2%
Transportation & Warehousing	10,709	12,088	22,797	3%

Real Estate, Rental & Leasing	10,031	1,458	11,489	2%
Arts, Entertainment, & Recreation	9,452	1,851	11,303	2%
Utilities and Other (Mining, Agriculture, etc)	2,238	899	3,137	0%
Total, all industries	581,051	126,931	707,982	100%

Source: Labor Market Statistics, Covered Employment and Wages Program

**Comparison of Median Household Income
Northern Virginia Counties/Cities, Virginia and United States, 1990 – 2011**

City/County	1990	2000	2004	2006	2009	2011	Percent Change 2000-2009
Alexandria City	\$41,460	\$56,455	\$61,136	\$70,009	\$67,493	\$77,655	19.6%
Arlington County	\$44,690	\$64,014	\$70,218	\$83,341	\$79,311	\$93,978	23.9%
Fairfax County/Fairfax City	\$59,373	\$81,036	\$88,832	\$96,400	\$100,229	\$104,234	23.7%
Falls Church City	\$51,037	\$73,940	\$82,654	\$86,970	\$95,305	\$96,730	28.9%
Loudoun County	\$52,240	\$80,976	\$91,245	\$87,326	\$104,566	\$92,131	29.1%
Manassas City	\$46,659	\$63,040	\$68,549	\$72,142	\$75,595	\$79,207	19.9%
Prince William County	\$49,398	\$71,036	\$76,653	\$79,669	\$84,779	\$87,396	19.3%
Fauquier County	\$45,107	\$57,500	\$64,167	\$72,984	\$72,500	\$80,804	26.1%
Stafford County	\$44,544	\$66,290	\$74,203	\$78,693	\$85,250	\$87,736	28.6%
Commonwealth of VA	\$28,097	\$37,702	\$40,625	\$56,277	\$45,576	n/a	20.9%
United States	\$29,181	\$42,307	\$46,696	\$48,451	\$52,871	n/a	25.0%

Source: Solucient, 2005; 2006 and 2011 Household Income from Claritas, 2006; VA and U.S. Household Income from US Census, 2006.

OTHER PROVIDERS IN SERVICE AREA

Inova and its affiliates provide a wide range of hospital, emergent, tertiary, long term care, skilled nursing care, ambulatory and outpatient services throughout the System's expanding service area. Those services historically have been provided directly through service agreements entered into between the Corporation or Services and payors.

Inova Hospitals account for over 66% of the Northern Virginia area's licensed beds. There are numerous other hospital providers in the System's service area as well as other nursing homes, ambulatory surgical centers, urgent care centers, drug and alcohol abuse prevention and treatment centers, outpatient radiological and oncological service facilities. The names and numbers of beds of other hospital facilities in the primary service area providing acute care services are as follows:

Acute Care Facilities Within the Primary Service Area

	<u>Acute Care Beds as of December 31, 2007</u>
Inova Hospitals:	
Inova Fairfax Hospital	833
Inova Fair Oaks Hospital	182
Inova Mount Vernon Hospital	237
Inova Alexandria Hospital	318
Inova Loudoun Hospital	155
Total Inova Health System	1,725
Other Hospitals in Northern Virginia:	
Virginia Hospital Center	334
Potomac Hospital	183
Prince William Hospital ¹	170
Reston Hospital Center	187
Total Other Northern Virginia	874
Total Primary Service Area	2,599

Source: Virginia Health Information (VHI)

¹ Pending merger; see PENDING LITIGATION AND OTHER CONTINGENCIES in Appendix A for further information.

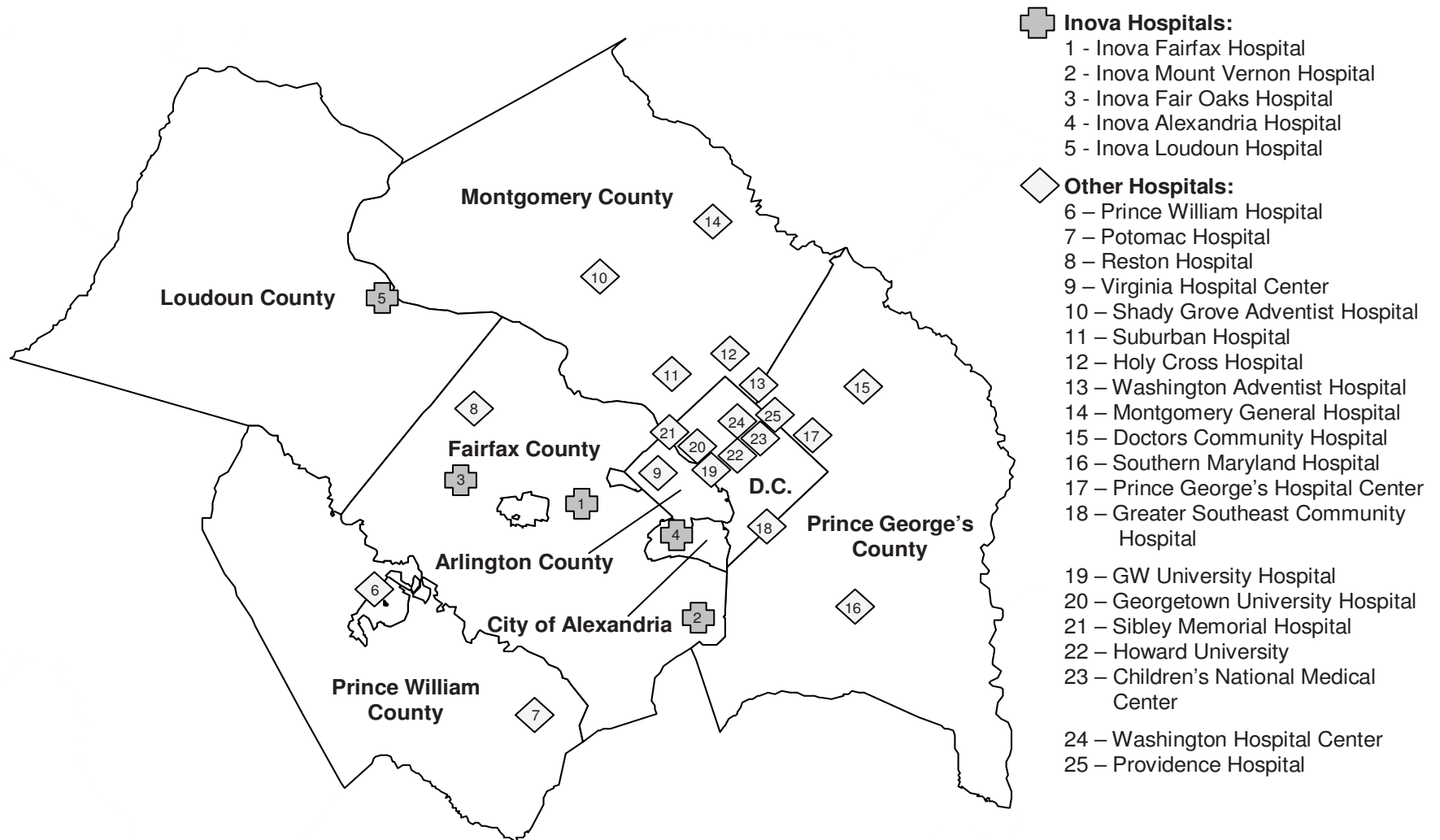
There are at least 30 other hospitals, other than Veterans Administration and military hospitals, located in the secondary and tertiary service areas. These hospitals operate approximately 7,700 beds and provide various levels of acute and specialty care services. The names of the largest acute care facilities located in the secondary and tertiary service areas are as follows:

Acute Care Facilities Within the Secondary and Tertiary Service Areas		
		<u>Staffed Beds</u>
Culpeper Regional Hospital	VA	60
Fauquier Hospital	VA	86
Mary Washington Hospital	VA	398
Warren Memorial Hospital	VA	166
Winchester Medical Center	VA	411
Children's Hospital	DC	230
Georgetown University Hospital	DC	385
George Washington University Hospital	DC	326
Greater Southeast Community Hospital	DC	303
Howard University Hospital	DC	305
Providence Hospital	DC	533
Sibley Memorial Hospital	DC	273
Washington Hospital Center	DC	844
Jefferson Memorial Hospital	WV	45
Doctors Community Hospital	MD	185
Holy Cross Hospital	MD	431
Montgomery General Hospital	MD	144
Prince George's Hospital Center	MD	375
Shady Grove Adventist Hospital	MD	242
Southern Maryland Hospital Center	MD	297
Suburban Hospital	MD	226
Washington Adventist Hospital	MD	211

Source: AHA Guide, 2008

Shady Grove Adventist Hospital and Washington Adventist Hospital are affiliated as members of Adventist HealthCare, while Washington Hospital Center, Georgetown University Hospital, and Montgomery General Hospital are affiliated as members of MedStar Health System.

Metropolitan Washington Area Hospitals



SELECTED OPERATIONAL AND UTILIZATION INFORMATION

The following table summarizes selected utilization statistics for the Obligated Group for the years ended December 31, 2007, 2006, and 2005.

	For the Year Ended December 31,			
	2007		2006	2005
<u>Beds</u>				
Alexandria	318		318	318
Fairfax	833		833	833
Fair Oaks	182		182	182
Mount Vernon	237		237	237
Loudoun	155		155	155
Total	1,725		1,725	1,725
<u>Admissions (excluding newborns)</u>				
Alexandria	16,584		16,597	16,417
Fairfax	53,303		51,704	50,566
Fair Oaks	13,095		12,358	12,085
Mount Vernon	7,876		7,883	8,716
Loudoun	10,934		10,614	10,614
Total	101,792		99,156	98,398
<u>Patient Days (excluding newborns)</u>				
Alexandria	77,006		77,785	76,706
Fairfax	247,042		257,190	246,716
Fair Oaks	44,817		43,878	43,658
Mount Vernon	53,842		56,523	61,147
Loudoun	43,193		43,856	44,484
Total	465,900		479,232	472,711
<u>Average Length of Stay (excluding newborns)</u>				
Alexandria	4.64		4.69	4.67
Fairfax	4.63		4.97	4.88
Fair Oaks	3.42		3.55	3.61
Mount Vernon	6.84		7.17	7.02
Loudoun	3.95		4.13	4.19
Average	4.58		4.83	4.80
<u>Occupancy % ¹ (excluding newborns)</u>				
Alexandria	66.3%		67.0%	66.1%
Fairfax	81.3%		84.6%	81.1%
Fair Oaks	67.5%		66.1%	65.7%
Mount Vernon	62.2%		65.3%	70.7%
Loudoun	76.3%		77.5%	78.6%
Average	74.0%		76.1%	75.1%
¹ Based on Licensed Beds				
Source: Inova Records				

SELECTED OPERATIONAL AND UTILIZATION INFORMATION

The following table summarizes selected utilization statistics for the Obligated Group for the years ended December 31, 2007, 2006, and 2005.

	For the Years Ended December 31,				
	2007		2006		2005
<u>Emergency Department Visits</u>					
Alexandria	51,059		46,391		48,652
Fairfax	89,317		84,505		76,967
Fair Oaks	41,478		39,974		39,023
Mount Vernon	27,076		26,973		27,288
Loudoun	57,919		55,312		50,583
Total	266,849		253,155		242,513
Free Standing Emergency Care Center Visits	130,869		138,456		131,224
Outpatient Visits	425,107		403,463		394,935
Outpatient Surgeries	45,850		50,268		54,360
Nursing Homes Admissions	994		1,243		1,356
Nursing Homes Resident Days	123,011		124,183		128,510
Nursing Homes Occupancy %	91.1%		92.0%		96.2%
Assisted Living Facilities Resident Days	130,563		131,648		129,481
Assisted Living Facilities Occupancy %	93.6%		92.0%		90.9%
Comprehensive Addictions					
Treatment Services Visits	12,316		12,688		10,419
Source: Inova Records					

THIRD-PARTY REIMBURSEMENT AND SOURCES OF REVENUES

Payments on behalf of certain patients are made to the Corporation, Services, IAH, ILC and to other healthcare providers in the System by managed care organizations including health maintenance organizations (“HMO’s”), preferred provider organizations (“PPO’s”), and other organizations through contractual arrangements, by the federal government under the Medicare Program, by individuals, by the Commonwealth of Virginia under Medicaid and State and Local Hospitalization (“SLH”) Programs, and by commercial insurance carriers. The following summarizes percentages of the gross inpatient and outpatient revenue by payor category for the fiscal years ended December 31, 2007, 2006, and 2005.

	For the Year Ended December 31,			
	2007		2006	2005
<u>Sources of Gross Revenue</u>				
<u>Managed Care (HMO’s & PPO’s), Commercial & Other</u>				
Alexandria	46.8%		45.1%	46.0%
Fairfax	54.7%		54.2%	54.2%
Fair Oaks	65.5%		65.9%	65.1%
Mount Vernon	43.3%		42.2%	41.6%
Loudoun	56.9%		57.7%	58.8%
Average	54.0%		52.0%	53.4%
<u>Medicare</u>				
Alexandria	35.7%		37.0%	36.5%
Fairfax	28.2%		29.5%	29.6%
Fair Oaks	25.1%		25.3%	25.5%
Mount Vernon	44.5%		45.7%	45.5%
Loudoun	28.9%		28.9%	29.2%
Average	30.4%		32.2%	31.6%
<u>Medicaid</u>				
Alexandria	8.3%		8.9%	9.3%
Fairfax	9.5%		9.2%	9.4%
Fair Oaks	4.1%		3.8%	4.4%
Mount Vernon	5.8%		5.6%	6.3%
Loudoun	4.8%		5.0%	3.8%
Average	8.0%		8.3%	8.1%
<u>Self Pay</u>				
Alexandria	9.2%		9.0%	8.2%
Fairfax	7.6%		7.1%	6.8%
Fair Oaks	5.2%		4.9%	5.0%
Mount Vernon	6.4%		6.5%	6.6%
Loudoun	9.4%		8.3%	8.2%
Average	7.7%		7.5%	6.9%
TOTALS:	100.0%		100.0%	100.0%
Source: Inova Records				

Reimbursement and Sources of Revenue

Medicare is a federal program administered by the Social Security Administration, the financial component of which is handled through fiscal intermediaries. Available to most individuals 65 or over and certain other persons, the program provides, among other things, hospital insurance benefits that cover, within prescribed limits, the major costs of hospital care to such individuals. The program pays hospitals fixed amounts for specific services based upon patient diagnoses. Inpatient discharges are classified into diagnosis related groups ("DRG's"). Hospitals are reimbursed for inpatient services to Medicare beneficiaries under this program, which is called the Medicare Prospective Payment System (PPS). The prospectively determined reimbursement rate for a case is based on the individual patient's classification into a DRG. Outpatient services are reimbursed through an Outpatient Prospective Payment System (OPPS). The prospectively determined reimbursement rate for a case is based on the individual patient's classification into an Ambulatory Payment Classification.

Medicaid is a federal/state medical assistance program administered by the various states. Health care benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain minimum income or other need requirements. For inpatient Medicaid and other state programs, the System is reimbursed, with certain exceptions, on a prospective payment system that classifies individual patients into an all payor diagnosis related group (AP-DRG). Outpatient Medicaid is paid on a cost basis less certain regulatory based reductions.

Under managed care plans, the System is reimbursed for services provided by its hospitals and other providers under contractual arrangements. These contracts are typically negotiated for a term of three (3) years and specify the payment rates for the System on either a DRG, case rate, per diem, or percent of charge basis. The majority of payments are made by the managed care payors directly. Occasionally third-party payors and benefits administrators pay for services through administrative contracts with managed care. Patients covered by managed care arrangements are required to pay to the facility rendering the services any co-payment or deductible amount pursuant to the terms and provisions of their managed care benefit plans. The growth of managed care in the market has been significant over the past several years, initially among commercial insurance carriers and, more recently, as government health programs such as Medicare and Medicaid convert to commercial managed care solutions in order to control medical spending. We expect to see continuing growth in managed care in government-paid health programs. The System currently has contracts with all the major managed care payors in the area. The contract with the System's largest payor is an arrangement using a DRG payment mechanism with annual rate increases. The agreement has a remaining term through the end of 2008.

The System also receives reimbursements from The Indigent Care Trust Fund (the "Fund"). The Virginia Department of Medical Assistance established the Fund in 1989. The program was designed to provide a mechanism to share the burden of providing charity care to indigent patients among all hospitals in the Commonwealth. The Fund, through a series of detailed calculations, collects contributions from all hospitals and then makes disbursements back to some of the hospitals. Contribution and disbursement levels are determined through an analysis of a hospital's excess of revenue over expenses, its cost structure and a comparison of the amount of its charity care in relationship to the amount provided by all other hospitals in the Commonwealth. The amount of future disbursements cannot be predicted at this time.

RESULTS OF OPERATIONS

The Consolidated Statement of Operations of the Obligated Group set forth below for the fiscal years ended December 31, 2007, 2006, and 2005, includes the revenues and expenses of Inova, the Corporation, Services, Alexandria Services, IAH and ILH. The summary of consolidated revenues and expenses of the Obligated Group should be read in conjunction with the audited consolidated financial statements of the System and related notes as set forth in Appendix B.

CONSOLIDATED STATEMENT OF OPERATIONS INOVA HEALTH SYSTEM – OBLIGATED GROUP (Dollars in Thousands)

	December 31 2007	December 31 2006	December 31 2005
Net patient service revenue	\$ 1,834,834	\$ 1,727,392	\$ 1,578,976
Other operating revenue	65,526	68,391	64,604
TOTAL OPERATING REVENUES	1,900,360	1,795,783	1,643,580
Operating Expenses:			
Salaries	949,300	877,350	797,442
Other	601,501	571,094	523,673
Depreciation and amortization of leasehold interest	123,138	115,943	107,583
Interest	34,112	33,485	30,319
Provision for bad debts	71,421	71,062	79,314
Loss on extinguishment of debt	86	-	15,925
TOTAL OPERATING EXPENSES	1,779,558	1,668,934	1,554,256
 OPERATING INCOME	 120,802	 126,849	 89,324
 INVESTMENT INCOME AND OTHER, NET	 168,263	 142,287	 243,680
 EXCESS OF REVENUE OVER EXPENSES	 \$ 289,065	 \$ 269,136	 \$ 333,004

Liquidity and Capitalization

The following table sets forth the Obligated Group's liquidity as of December 31, 2007, 2006, and 2005 in terms of operating cash, board designated funds for capital improvement and long term investments. Excluded are trustee-held bond funds, self-insurance assets and donor-restricted funds. All investments are shown at market value.

CASH AND INVESTMENTS (In Thousands)			
	IHS Obligated Group only		
	December 31, <u>2007</u>	December 31, <u>2006</u>	December 31, <u>2005</u>
Cash & cash equivalents	\$43,103	\$40,184	\$44,307
Assets whose use is limited by Board for plant replacement and expansion	1,929,458	1,706,294	1,439,914
Long term investments	233,511	149,441	67,624
Total Cash and Investments	\$2,206,072	\$1,895,919	\$1,551,845
Operating Expenses	\$1,779,558	\$1,668,934	\$1,554,256
Depreciation and Amortization Expense	\$123,138	\$115,943	\$107,583
Days Cash on Hand	486	446	392

Source: Inova records

The assets designated for plant replacement are managed based upon an approved investment policy. The policy establishes current asset allocations for investments of 45% equity securities, 30% alternative investments and 25% fixed income securities.

The following table sets forth the Obligated Group's historical capitalization ratios as of December 31, 2007, 2006, and 2005.

CAPITALIZATION RATIO (In Thousands)			
	IHS Obligated Group only		
	December 31, <u>2007</u>	December 31, <u>2006</u>	December 31, <u>2005</u>
Long Term Debt	\$513,755	\$524,830	\$537,019
Plus:			
Bonds under remarketing agreement (1)	328,490	342,300	349,820
Current portion of long term debt	18,585	18,253	16,610
Total Long Term Debt	860,830	885,383	903,449
Unrestricted Net Assets	2,461,198	2,076,330	1,716,178
Total Capitalization	\$ 3,322,028	\$ 2,961,713	\$ 2,619,627
Percent of Long Term Debt to Capitalization (Capitalization Ratio)	25.9%	29.9%	34.5%

- (1) For further information, see Note F of the "Notes to the Consolidated Financial Statements" in Appendix B to the Official Statement.

MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS

The following discussion and analysis of operations provides information that management believes is relevant to an assessment and understanding of the Inova Health System Obligated Group's results of operations and financial condition. This discussion should be read in conjunction with the Obligated Group financial statements for the year ended December 31, 2007.

Year Ended December 31, 2007

Results of Operations

For the year ended December 31, 2007, operating income for the Obligated Group was \$120.8 million, or 6.4% of total operating revenues, versus \$126.8 million, or 7.1%, for 2006.

Operating revenues increased \$104.6 million or 5.8% over prior year in part due to increased volumes as well as contract rate increases.

Overall, inpatient admissions increased 2.7% compared to prior year. Inova Fairfax Hospital, Inova Fair Oaks Hospital and Inova Loudoun Hospital experienced increases in inpatient admissions, while Inova Alexandria Hospital and Inova Mt. Vernon Hospital saw their inpatient admissions decrease slightly over the same period. In addition, total inpatient surgeries increased 3.4% over prior year while emergency department visits and other outpatient visits were each up 5.4%. Outpatient surgeries decreased 8.8% over prior year for the Obligated Group as a result of more of such surgeries being performed by non-obligated affiliates. Total number of outpatient surgeries performed by the System increased by 0.7% over prior year.

Total operating expenses for 2007 increased 6.6% over prior year. Salary and benefit expenses rose 8.2%, reflecting general wage increases and higher FTE levels in some clinical areas. Other operating expenses increased 5.3%, partly related to a 5.0% increase in supplies due mainly to the increased usage and cost of surgical supplies, such as implants and medical supplies. In addition, purchased services increased 10.6% resulting from higher legal fees, printing and maintenance contracts for medical equipment. Pharmaceuticals decreased 4.6% and other non-salary expenses increased 4.6% over prior year.

The operating cash flow margin decreased from 15.4% in 2006 to 14.6% in 2007. The debt service coverage was 8.2 times for 2007.

Results of Non-operating Activity

Investment income and other, net was \$168.3 million through December 2007, consisting primarily of \$68.6 million of net interest and dividend income and \$134.9 million in realized gains on the sale of investment securities, offset by \$44.3 million of other than temporary declines in the fair market value of investments. Investment income and other, for the same period in 2006 was \$142.3 million, consisting primarily of \$67.0 million in net interest and

dividend income and \$84.1 million in realized gains on the sale of investment securities, offset by \$6.4 million of other than temporary declines in the fair market value of investments.

Balance Sheet and Cash Position

As of December 31, 2007, the Obligated Group had unrestricted cash and investments of \$2.2 billion, representing 486 days cash on hand, versus 446 days cash on hand at the end of 2006.

Approximately \$169.7 million was spent on capital in 2007 by the obligated group entities. A majority was spent in acute care facilities, with \$61.4 million spent on new and replacement equipment and renovations and \$91.5 million spent on strategic projects. Significant strategic projects during 2007 included the Claude Moore Health Education Center, and the support services building/kitchen relocation at the Fairfax facility, Fairfax infrastructure upgrades, new IT data center and various Loudoun expansion projects.

The net asset portion of the Obligated Group's balance sheet totals \$2.5 billion as of December 31, 2007, which represents 63.4% of total assets. The debt/capitalization ratio at December 31, 2007 was 25.9%.

Consolidated Inova Health System Operating Results and Other Financial Information

For the year ended December 31, 2007, operating income for the System was \$132.2 million, or 6.7% of operating revenues.

Cash from operations was \$329.9 million through December 31, 2007. Total net assets were \$2.6 billion, or 63.4% of total assets. The debt/capitalization ratio at December 31, 2007 was 25.9%, down from 29.9% at December 31, 2006.

Year Ended December 31, 2006

Results of Operations

For the year ended December 31, 2006, operating income for the Obligated Group was \$126.8 million, or 7.1% of total operating revenues, versus \$105.2 million (excluding loss on extinguishment of debt), or 6.4%, for 2005.

Operating revenues increased \$152.2 million or 9.3% over prior year reflecting slightly higher patient volume and acuity and ongoing revenue cycle improvements.

Overall, inpatient admissions increased 0.8% compared to prior year. Inova Fairfax Hospital, Inova Fair Oaks Hospital and Inova Alexandria Hospital experienced increases in inpatient admissions, while Inova Mt. Vernon Hospital saw their inpatient admissions decrease over the same period and Inova Loudoun Hospital remained consistent with prior year. In addition, total inpatient surgeries increased 0.5% over prior year while emergency department visits and other outpatient visits were up 4.4% and 2.2%, respectively. Outpatient surgeries decreased 7.5% over prior year for the Obligated Group as a result of more of such surgeries being performed by non-

obligated affiliates. Total number of outpatient surgeries performed by the System increased by 0.3% over prior year.

Total operating expenses for 2006 increased 8.5% over prior year, excluding the loss on extinguishment of debt of \$15.9 million. Salary and benefit expenses rose 10%, primarily due to general wage increases and higher FTE levels in some clinical areas. Employee health and pension costs rose at a higher rate than wages. Other operating expenses increased 9.1% and included a 9.5% increase in supplies and pharmaceuticals due mainly to the increased usage and cost of surgical supplies, such as stents, pharmaceuticals and other clinical supplies. In addition, purchased services increased 9.9% resulting from higher consulting fees, legal fees and computer software maintenance.

The operating cash flow margin increased from 13.8% in 2005 to 15.4% in 2006. Excluding the loss on extinguishment of debt of \$15.9 million, the 2005 operating cash flow margin would have been 14.8%. The debt service coverage was 7.9 times for 2006.

Results of Non-operating Activity

Investment income and other, net was \$142.3 million through December 2006, consisting primarily of \$67.0 million of net interest and dividend income and \$84.1 million in realized gains on the sale of investment securities, offset by \$6.4 million of other than temporary declines in the fair market value of investments. Investment income and other, for the same period in 2005 was \$243.7 million, consisting primarily of \$46.5 million in net interest and dividend income and \$205.5 million in realized gains on the sale of investment securities, offset by \$4.3 million of other than temporary declines in the fair market value of investments. The significant amount of realized gains in 2005 is primarily related to restructuring the investment portfolio during the third quarter of 2005.

Balance Sheet and Cash Position

As of December 31, 2006, the Obligated Group had unrestricted cash and investments of \$1.9 billion, representing 446 days cash on hand, versus 392 days cash on hand at the end of 2005.

Approximately \$157.4 million was spent on capital in 2006 by the obligated group entities, with a majority being spent in the acute care facilities. \$54.6 million was spent on equipment, renovations and replacement and \$101.1 million was spent on approved strategic projects. Significant strategic projects during 2006 included the Claude Moore Health Education Center, and the support services building/kitchen relocation at the Fairfax facility, Fairfax infrastructure upgrades, Alexandria linear accelerator, IT data center move/redundancy and various Loudoun expansion projects.

In 2006, the System early adopted Statement of Financial Accounting Standards Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires recognition of the "funded status" (difference between the fair market value of plan assets and the projected benefit obligation) of a defined benefit plan. This accounting change resulted in an

asset of \$11.0 million for the pension plans and a liability of \$31.7 million for retiree health care costs. These amounts are included in the Obligated Group's balance sheet as of December 31, 2006.

The net asset portion of the Obligated Group's balance sheet totals \$2.1 billion as of December 31, 2006, which represents 64.1% of total assets. The debt/capitalization ratio at December 31, 2006 was 29.9%.

Consolidated Inova Health System Operating Results and Other Financial Information

For the year ended December 31, 2006, operating income for the System was \$132.0 million, or 7.1% of operating revenues.

Cash from operations was \$256.7 million through December 31, 2006. Total net assets were \$2.2 billion, or 64.1% of total assets. The debt/capitalization ratio at December 31, 2006 was 29.9%, down from 34.5% at December 31, 2005.

LONG-TERM DEBT AND GUARANTEED INDEBTEDNESS

Master Indenture Obligations

For maturity and interest rate information on each bond issue, see the consolidated financial statements of Inova Health System and the related notes included at Appendix B herein. The Obligated Group currently has obligations to repay outstanding indebtedness in the following approximate principal amounts at December 31, 2007:

Inova Obligated Group Bonds:

Bond Issue	Outstanding at December 31, 2007	Refinanced with proceeds of 2008 Series	Proforma Amount Outstanding
<u>Inova Obligated Group Bonds:</u>			
1988 A-D Series	\$49,500,000	-	\$49,500,000
1993 A Series	\$95,910,000	-	\$95,910,000
1998 A Series	\$78,135,000	-	\$78,135,000
2000 Series	\$71,100,000	-	\$71,100,000
2005 Term Loan Note	\$5,934,832	-	\$5,934,832
2005 Series	\$560,250,000	\$344,850,000	\$215,400,000
2008 Series	-	-	\$348,500,000*
Total Debt	\$860,829,832		\$864,479,832*

* Preliminary, subject to change.

ESTIMATED PRO FORMA COVERAGE OF DEBT SERVICE

The following chart sets forth and compares the long-term debt service coverage ratios based upon the current outstanding long-term bond indebtedness (referred to as current debt, below) and immediately after the issuance of the Series 2008 Bonds (referred to as pro forma debt, below). The long-term debt service coverage ratio is based upon the income available for debt service as of December 31, 2007 and the maximum annual debt service of the long-term bond indebtedness, as described. There can be no assurance that the System will generate income available for debt service in future years comparable to historical performance.

		Inova Health System Obligated Group <u>Current Debt</u> (In Thousands)	Inova Health System Obligated Group <u>Pro Forma Debt</u> ¹ (In Thousands)
For the Year Ended December 31, 2007:		(Unaudited)	(Unaudited)
	Excess of Revenues over Expenses	\$289,065	\$289,065
	Plus: Depreciation & Amortization of Leasehold Interests and Interest	157,250	157,250
	Income Available for Debt Service	446,315	446,315
Maximum Annual Debt Service			
	Total Bond Issues	50,379	50,830*
	Other	3,824	3,824
	Maximum Annual Debt Service	\$54,203	\$54,654*
	Debt Service Coverage Ratio	8.2	8.2*

¹ Assumes all synthetic fixed rate debt at swap rates.

* Preliminary, subject to change.

BUILDING PROGRAMS AND FUTURE PROJECTS

The System is projecting to invest in excess of \$2 billion in plant, equipment and new business development over the next five years (2008-2012). The System is expecting to invest over \$1 billion in a major facility development program at the Inova Fairfax Hospital campus. In addition, planned future expenditures for core facility upgrades and renovations/expansion include approximately \$42 million at Inova Fair Oaks Hospital, \$43 million at Inova Mount Vernon Hospital and \$159 million at Inova Loudoun Hospital. Routine medical equipment replacement, on a combined basis, is expected to total approximately \$297 million. Investment in upgrading, replacing or enhancing information technology is expected to be over \$205 million.

The plan for new business development includes expenditures of \$102 million related to ambulatory facility development. Planned expenditures related to community outreach, education and research programs total \$49 million. In addition, \$118 million has been preliminarily identified for strategic projects, potential acquisitions and contingent reserves. These projections do not reflect the impact of the pending merger between Inova and Prince William Health System, Inc. For further information, see PENDING LITIGATION AND OTHER CONTINGENCIES in Appendix A.

Inova currently anticipates that capital expenditures will be financed with a combination of funds generated from earnings (adjusted for depreciation and other non-cash items), cash reserves, donations and tax-exempt borrowing. The actual undertaking of any construction project or equipment purchase program contemplated by the System is dependent upon a number of factors, including achievement of projected earnings and other changes in the methods and requirements pertaining to the delivery of necessary health care services.

COUNTY LEASE AGREEMENT

The land upon which Inova Fairfax Hospital and Inova Mount Vernon Hospital are located and the related buildings and equipment are leased to the Corporation by the Board of Supervisors of Fairfax County, Virginia ("County"), under an agreement that was renegotiated in 1991 (the "County Lease"). The County Lease has a 75-year term, which expires January 2066, and calls for lease payments of \$10 per annum. Accordingly, the property and equipment leased from the County are recorded as leasehold interests at the cost to construct or acquire. Upon termination of the County Lease, such property, including leasehold improvements and equipment will revert to the County, subject to all related long-term liabilities of the Corporation incurred to finance the construction and acquisition of such property, buildings and equipment.

The County Lease also requires the Corporation to set aside funds in an amount at least equal to the depreciation expense on the related leasehold interests. Such funds may be expended by the Corporation for major repairs or alterations, construction of or additions to buildings, or the purchase or replacement of equipment. The Corporation's Board of Trustees has also designated additional funds for the purpose of plant expansion.

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients' payment obligations under the policy are determined using a sliding income scale which is based on the federal poverty guidelines. During the term of the County Lease, the Corporation has agreed to notify the County of any intent to incur additional debt in excess of \$1 million. The Corporation has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than the System, or any intent to change hospital rates.

For additional information regarding the County Lease Agreement, see Note G of Notes to Combined Financial Statements in Appendix B to the Official Statement.

MALPRACTICE AND OTHER INSURANCE

System Insurance Program

The System maintains its malpractice and general liability insurance coverage through the Virginia Health Systems Alliance Inter-insurance Exchange, RRG (“VHSAX”), a Vermont domiciled reciprocal insurance company in the form of a risk retention group. VHSAX is an affiliate of the System. Professional liability (malpractice) and general liability coverage is provided on a claims-made basis. Coverage is provided for all of the controlled entities within the System. The current limits of the System's insurance coverage are \$52,000,000 per claim and \$69,000,000 in the annual aggregate for all damages as a result of any occurrence, offense or medical incident. VHSAX's net aggregate annual liability within the policy limit referenced above is limited by means of reinsurance agreements. These reinsurance agreements are provided by Lloyds of London, other European companies, CNA, and Zurich.

As of December 31, 2007, VHSAX carries a liability of approximately \$21.1 million related to Inova's claims. VHSAX maintains cash and investments for future payment of Inova's claims of approximately \$50.3 million. Inova accounts for its ownership interest in VHSAX using the equity method in the accompanying financial statements. In addition, Inova accrues an unfunded liability for incurred but not reported claims of \$15.2 million as of December 31, 2007.

PENDING LITIGATION AND OTHER CONTINGENCIES

The System is subject to various legal commitments and contingencies arising in the ordinary course of business. In August 2006, the System settled a lawsuit against its home health agency filed under the Federal and Virginia False Claims Acts. Under the settlement agreement, the System paid approximately \$10 million. The System admits no liability under the settlement agreement. The System's home health agency will also be subject to a corporate integrity agreement for a period of five years.

On August 1, 2006, Inova and the Prince William Health System, Inc. (PWHS) signed a definitive agreement, pursuant to which Inova shall become the parent of PWHS. The transaction will rapidly expand the delivery of comprehensive, sophisticated and advanced health care services to meet the needs of the fast growing communities of Prince William County, Virginia. Upon closing of the transaction, Inova will become the sole member of PWHS. PWHS is the sole member of Prince William Hospital, a 170 bed, general acute care hospital located in Prince William County and several other tax exempt and taxable corporations. Inova will make an investment of over \$200 million to upgrade and expand services in Prince William County over the next several years. The transaction must be reviewed by the Federal Trade Commission and the Virginia Attorney General's office prior to closing. Such review is currently underway.

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APPENDIX B

**INOVA HEALTH SYSTEM AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 AND 2006**

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INOVA HEALTH SYSTEM

**Audited Consolidated
Financial Statements and
Other Financial Information
Relating to the IHS Obligated Group**

**Fiscal Year Ended
December 31, 2007**

Inova Health System
Audited Consolidated Financial Statements
and Other Financial Information
Related to the IHS Obligated Group
December 31, 2007 and 2006

Audited Consolidated Financial Statements

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Report of Independent Auditors

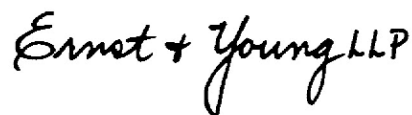
The Board of Trustees
Inova Health System

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inova Health System at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note I to the consolidated financial statements, the System elected to adopt certain provisions of Statement of Financial Accounting Standards Statement No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* in 2006, which changed its method of accounting for its defined benefit pension plan.



March 12, 2008

Inova Health System
Consolidated Balance Sheets
December 31, 2007 and 2006
(In thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 59,266	\$ 47,408
Assets whose use is limited		
Required to meet current obligations	3,150	2,315
By board for plant replacement and expansion	336,000	347,138
Securities lending collateral	260,434	-
Patient accounts receivable (less allowance for doubtful accounts: 2007 - \$78,151; 2006 - \$72,412)	256,518	261,827
Third-party settlements	1,304	655
Other current assets	51,387	51,541
Total Current Assets	<u>968,059</u>	<u>710,884</u>
Property, Equipment and Leasehold Interests, net (Note D)	1,035,886	994,783
Assets Whose Use Is Limited (Notes E, F)		
Held by bond trustee	44,300	83,015
By board for plant replacement and expansion (including securities on loan: 2007 - \$269,917; 2006 - \$0)	1,929,458	1,706,294
By donor	85,438	82,839
	<u>2,059,196</u>	<u>1,872,148</u>
Less amounts required to meet current obligations	(339,150)	(349,453)
Total Assets Whose Use Is Limited	<u>1,720,046</u>	<u>1,522,695</u>
Other Assets		
Unrestricted long-term investments (Note E)	249,714	163,904
Investments in and receivables from affiliates	38,942	27,739
Deferred debt issuance costs	6,290	6,794
Prepaid pension asset	82,414	10,977
Other long-term assets	25,559	25,691
Total Other Assets	<u>402,919</u>	<u>235,105</u>
TOTAL ASSETS	<u><u>\$ 4,126,910</u></u>	<u><u>\$ 3,463,467</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 139,573	\$ 125,863
Accrued salaries, wages and related items	102,570	90,453
Third-party settlements	30,168	28,941
Notes payable and other liabilities	10,743	13,020
Securities lending payable	260,434	-
Current portion of long-term debt	348,479	361,871
Total Current Liabilities	<u>891,967</u>	<u>620,148</u>
Non-current Liabilities		
Long-term debt, less current portion (Note F)	530,727	542,989
Post employment health care and retirement benefits (Note I)	19,197	30,030
Other non-current obligations	45,899	31,679
Estimated professional liability (Note J)	15,211	14,350
Minority interest	6,203	3,492
Total Non-current Liabilities	<u>617,237</u>	<u>622,540</u>
Net Assets		
Unrestricted	2,522,197	2,130,155
Temporarily restricted	53,346	50,572
Permanently restricted	42,163	40,052
Total Net Assets	<u>2,617,706</u>	<u>2,220,779</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,126,910</u></u>	<u><u>\$ 3,463,467</u></u>

See notes to consolidated financial statements.

Inova Health System
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended December 31, 2007 and 2006
(In thousands)

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Net patient service revenue	\$ 1,908,943	\$ 1,791,714
Other operating revenue	69,919	74,245
Total Operating Revenues	<u>1,978,862</u>	<u>1,865,959</u>
Operating Expenses		
Salaries and benefits	992,107	918,597
Other	619,868	587,983
Depreciation and amortization	126,272	119,241
Interest	35,301	34,870
Provision for bad debts	73,009	71,660
Loss on extinguishment of debt	86	1,621
Total Operating Expenses	<u>1,846,643</u>	<u>1,733,972</u>
Operating Income	132,219	131,987
Investment income and other, net	<u>161,857</u>	<u>145,964</u>
Excess of revenue over expenses	294,076	277,951
Change in unrealized gains on investments, net	27,672	82,781
Change in fair value of interest rate swap	(17,230)	2,298
Net assets released from restriction for purchase of equipment and land rights	4,341	5,585
Minimum pension liability adjustment	-	110,725
Change in plan assets and benefit obligations of pension and retiree health plans	81,986	-
Other	<u>1,197</u>	<u>(51)</u>
Increase in unrestricted net assets before effect of adoption of recognition provisions of SFAS 158	392,042	479,289
Effect of adoption of recognition provisions of SFAS 158	-	(111,159)
Increase in unrestricted net assets	<u>\$ 392,042</u>	<u>\$ 368,130</u>

Inova Health System
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended December 31, 2007 and 2006
(In thousands)

	<u>2007</u>	<u>2006</u>
Increase in Unrestricted Net Assets	\$ 392,042	\$ 368,130
Temporarily Restricted Net Assets		
Gifts and bequests	16,306	13,090
Restricted investment income	1,091	964
Unrealized gain on marketable securities	48	253
Net assets released from restriction	(14,282)	(13,172)
Other	(389)	(293)
Increase in Temporarily Restricted Net Assets	<u>2,774</u>	<u>842</u>
Permanently Restricted Net Assets		
Gifts and bequests	167	50
Restricted investment gain	2,924	2,290
Unrealized (loss) gain on marketable securities	(1,047)	840
Other	67	(866)
Increase in Permanently Restricted Net Assets	<u>2,111</u>	<u>2,314</u>
Increase in Net Assets	396,927	371,286
Net Assets, Beginning of Year	<u>2,220,779</u>	<u>1,849,493</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,617,706</u></u>	<u><u>\$ 2,220,779</u></u>

See notes to consolidated financial statements.

Inova Health System
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006
(In thousands)

	<u>2007</u>	<u>2006</u>
Operating Activities		
Change in net assets	\$ 396,927	\$ 371,286
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	126,272	119,241
Change in plan assets and benefit obligations of pension and retiree health plans	(81,986)	-
Loss on extinguishment of debt	86	1,621
Net realized and unrealized gains on investments	(163,904)	(171,071)
Other than temporary declines in fair market value of investments	44,272	6,445
Net asset impact of SFAS 158 adoption, net	-	434
Change in fair market value of interest rate swaps	15,295	(5,292)
Equity investment earnings	(1,177)	(1,626)
Gain on sale of fixed assets	(10,213)	(14,994)
Decrease/(increase) in accounts receivable and third-party settlements, net	4,660	(35,859)
Increase in prepaid pension asset - long term	(284)	-
Increase in accounts payable and other current liabilities	12,660	9,819
Increase in accrued salaries, wages and related items	12,117	10,673
Decrease in post employment health care and retirement benefits liability	-	(14,484)
(Decrease)/increase in estimated professional liability and other deferred liability items	(214)	4,287
Minority interest	2,711	844
Restricted contributions received	(16,473)	(13,140)
Restricted interest and dividend income	(4,015)	(3,254)
Other	(6,814)	(8,277)
Net Cash Provided by Operating Activities	<u>329,920</u>	<u>256,653</u>
Investing Activities		
Capital expenditures	(171,405)	(158,818)
Investments in and advances to joint ventures and affiliates	194	1,014
Purchases of marketable securities	(7,382,362)	(4,575,988)
Proceeds from sale of marketable securities	7,225,704	4,441,898
Cash proceeds from sale of noncurrent assets	14,973	26,850
Net Cash Used in Investing Activities	<u>(312,896)</u>	<u>(265,044)</u>
Financing Activities		
Restricted contributions received	16,473	13,140
Restricted interest and dividend income	4,015	3,254
Principal payments on long-term debt	(25,871)	(26,621)
Proceeds from issuance of long-term debt	-	19,700
Refunding of long-term debt	-	(13,469)
Other	217	(1,397)
Net Cash Used in Financing Activities	<u>(5,166)</u>	<u>(5,393)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,858	(13,784)
Cash and cash equivalents at beginning of year	<u>47,408</u>	<u>61,192</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 59,266</u></u>	<u><u>\$ 47,408</u></u>

See notes to consolidated financial statements.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note A – Nature of Operations

Organization: Inova Health System ("IHS") is a not-for-profit integrated health care delivery system serving Northern Virginia, Washington, D.C., and contiguous Virginia and Maryland counties. The principal line of business for IHS is the delivery of acute care hospital services at five hospitals located in Northern Virginia. IHS also operates an integrated network of health services including ambulatory care, home health care, nursing homes, assisted living and other health related services.

Note B – Summary of Significant Accounting Policies

Basis of Presentation: The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation: The IHS consolidated financial statements include the accounts of the Inova Health System Foundation (the "Foundation"); Inova Health Care Services ("IHCS"); Inova Alexandria Health Services Corporation ("AHSC"); Loudoun Healthcare, Inc. ("LHI"); Inova Health System Services ("IHSS"); Inova Holdings, Inc. ("IHI"); and their majority-owned subsidiaries and controlled affiliates. All material intercompany accounts and transactions have been eliminated in consolidation.

The Foundation is a tax-exempt, non-stock corporation, which controls its affiliated corporations through its authority to appoint the governing boards of the tax-exempt, non-stock affiliates or its stock ownership. The Foundation also supports and maintains the programs, services, and facilities of IHS' health care delivery system in part through the solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt affiliates.

IHCS is a tax-exempt, non-stock corporation that serves the health care needs of the community by establishing, maintaining and operating hospital and health care facilities, programs, and other shared and integrated health care delivery arrangements. IHCS operates the following facilities, among others: Inova Fairfax Hospital ("Fairfax"); Inova Mount Vernon Hospital ("Mount Vernon") and Inova Fair Oaks Hospital ("Fair Oaks").

AHSC is a tax-exempt, non-stock corporation organized to promote the health and well being of the Alexandria, Virginia community through the coordination and operation of Inova Alexandria Hospital ("Alexandria") and other related health care entities.

LHI is a tax-exempt, non-stock corporation that serves the health care needs of Loudoun County, Virginia, and surrounding areas. LHI operates Loudoun Hospital Center, Loudoun Nursing and Rehabilitation Center, Loudoun Healthcare Foundation and other health care and related facilities.

IHSS is a tax-exempt, non-stock corporation that provides and manages the tax-exempt, clinical, non-hospital activities of IHS within its own facilities and through the facilities and programs of its subsidiaries and controlled affiliates. Those services include long-term care through nursing home and assisted living facilities, addiction treatment services for adults and adolescents, outpatient rehabilitation services, urgent care and other outpatient health care services.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note B – Summary of Significant Accounting Policies (continued)

IHI is a wholly owned subsidiary of the Foundation and is the parent holding company for various taxable entities within IHS including Technical Dynamics Inc., a biomedical equipment maintenance and engineering company. IHI and its subsidiaries operate facilities providing a variety of health care and support services to patients and to affiliated health care providers.

Cash and Cash Equivalents: Cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

Patient Accounts Receivable: Patient accounts receivable include charges for amounts due from all patients less allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid and other insurers. Bad debt expense is recognized when providing an allowance for uncollectible accounts. Inova has a self-insured discount program whereby uninsured patients receive a 35% discount for services rendered. Discounts to uninsured patients are classified as a deduction from revenue as opposed to bad debt.

Securities Lending Program:

In 2007, Inova began participating in a securities lending arrangement with its investment custodian serving as the agent. Under the arrangement, Inova lends a portion of its marketable securities, on a short term basis to various brokers in exchange for collateral. The collateral, ranging from 102% to 105% of the fair market value of the securities, is invested with the custodian in a pooled investment account. Inova may recall the loaned securities at any time and the borrower must return like securities which were borrowed within a specified period of time. The securities lending agreement indemnifies Inova from losses related to a borrower's default. The market value of cash collateral held for loaned marketable securities is reported as a current asset whose use is limited along with a corresponding liability for the obligation to return the collateral at the conclusion of the loan. The total market value of cash and noncash collateral provided by borrowers as of December 31, 2007 is \$260.4 million and \$17.5 million, respectively. In accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," noncash collateral provided to IHS is not recorded in the balance sheet at December 31, 2007, since the collateral may not be sold or repledged.

Property, Equipment and Leasehold Interests: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets, and is computed using the straight-line method. The general range of useful lives is three to twenty-five years for land improvements, ten to forty years for buildings, fixed equipment, and leasehold improvements, and three to twenty years for major movable equipment. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repairs and maintenance are expensed as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note B – Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements: Interest rate swap agreements were entered into in 2001 and 2005 in conjunction with the issuance of variable rate bonds, and additional swap agreements were executed in 2007 related to previously issued variable rate bonds. These swap agreements hedge the variability of cash flows related to changes in market interest rates on the underlying variable rate debt, effectively converting the variable rate debt to a fixed rate issuance for the life of the debt outstanding. In 2006, a swap agreement was entered which effectively substitutes the variable rate received in an earlier swap transaction for an alternative variable rate. This transaction reduces variability in the swap cash flows by diversifying the basis of the variable payments received. The variable receiver rates for the 2001, 2005 and 2007 swaps are based upon LIBOR. The fair market value of the swap agreements is included with other non-current obligations in the accompanying consolidated balance sheets. The 2001, 2005 and 2007 swap agreements have been designated and qualify as cash flow hedges, and the effectiveness of the hedges is periodically evaluated. Accordingly, the effective portion of the change in the fair market value of the swaps is reported on the accompanying statements as a change in unrestricted net assets, and the ineffective portion is recorded in investment income and other, net. The change in fair market value of the 2006 swap agreement is recorded in investment income, as this swap is not designated as a hedge.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by IHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by IHS in perpetuity.

Donor-restricted Gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Contributions received are reported as either temporarily or permanently restricted assets if they are received with donor stipulations that limit the use of the donated assets. 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 statement of operations and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received and contributions received where no restrictions were stipulated are reflected as unrestricted contributions reported in the accompanying consolidated financial statements as other operating revenue.

Investments in and Receivables from Affiliates: IHS makes investments in corporations and other forms of businesses. Investments where less than 20% of the ownership interest is held by IHS, and IHS does not exert significant influence over the investee, are accounted for using the cost method. Investments where 20% to 50% of the voting common stock is owned by IHS as well as certain partnership and limited liability company investments are accounted for using the equity method. The equity method is also applied to investments in which IHS owns less than 20% of the ownership interest but can exert significant influence over the investee. Significant investments in affiliates include equity investments in Potomac Inova Healthcare Alliance and Genetics and IVF Institute. IHS holds 50% and 33% common stock interest in these investments, respectively. IHS also maintains a 25-year note receivable from Potomac Hospital.

IHS holds a majority of the equity interest, but not a controlling interest, in Virginia Health Systems Alliance Interinsurance Exchange (“VHSAX”) (see Note J). IHS’ equity interest in VHSAX was 65.2% and 65.3% as of December 31, 2007 and 2006, respectively. IHS reports its interest in VHSAX in accordance with the equity method of accounting. IHS records its share of VHSAX’s net income as a component of other operating expenses.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note B – Summary of Significant Accounting Policies (continued)

Charity Care: All operating entities of IHS treat emergency patients regardless of their ability to pay. Non-emergency medically necessary care is provided virtually without restriction at all IHS tax-exempt operating entities. A patient is classified as a charity patient based upon established IHS policies that consider patient income levels and available assets. Since IHS does not pursue collection of amounts that qualify as charity care, they are deducted from gross revenue. Unpaid accounts of patients who fail to provide required income and asset documentation to IHS are classified as bad debt expense. Guidelines used by IHS in determining charity care may differ from guidelines used by certain state or federal agencies.

Income Taxes: The Foundation, IHCS, AHSC, LHI and IHSS, are not-for-profit corporations and have been determined to be exempt from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code. IHI and its subsidiaries are taxable organizations. Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes.

Reclassification: Certain prior year balances have been reclassified to be consistent with the current year.

Risk Factors: IHS' ability to maintain and/or increase future revenues could be adversely affected by: (i) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services, such as discounted fee for service networks and capitated fee arrangements; (ii) increased competition from other hospital facilities and integrated health care delivery systems in IHS service areas, from health maintenance organizations (HMOs) and from other entities providing health care services to the population which IHS presently serves; (iii) proposed and/or future changes in the laws, rules, regulations and policies relating to the definition, activities, and/or taxation of non-profit tax-exempt entities; (iv) future legislation, regulation or other actions by federal, state and local governments and their agencies which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for health care services; (v) future legislation or adverse trends affecting the costs related to professional liability coverage; (vi) the future of Virginia's Certificate of Need (CON) program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate IHS' ability to expand new services; (vii) changes in general and local economic conditions which could influence patients' ability to pay for services or the adequacy of patients' health insurance coverage; and (viii) a potential shortage of qualified nurses and other skilled health care professionals in the local employment market.

Recent Accounting Pronouncements: In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which became effective as of January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the tax benefit from an uncertain tax position must be recognized only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Our reassessment of our tax positions in accordance with FIN 48 did not have a material impact on IHS' results of operations or financial position.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note B – Summary of Significant Accounting Policies (continued)

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (“Statement 158”). Statement 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, “postretirement benefit plans”) to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. As permitted, IHS elected to early-adopt the recognition and disclosure provisions of Statement 158 effective December 31, 2006. The cumulative effect of adopting Statement 158 on IHS’s financial condition as of December 31, 2006 is included in the accompanying consolidated financial statements. The pronouncement is not retroactive and therefore the change in presentation must be applied prospectively. Statement 158’s provision regarding the change in the measurement date of postretirement benefit plans is effective for fiscal years ending after December 15, 2008. IHS has not yet adopted these provisions. See note I for further discussion.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (“Statement 157”), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. Statement 157 does not require any new fair value measurements under GAAP and is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in IHS’ financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. Management is currently evaluating the provisions of Statement 157.

In February 2007, the FASB issued FASB Statement No. 159, *Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (“Statement 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value. Statement 159 is effective for fiscal years beginning on or after December 31, 2007. Management is currently evaluating the provisions of Statement 159.

Note C – Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third party payers and others for services rendered. Net patient service revenue is computed as follows for the years ended December 31, 2007 and 2006 (in thousands):

<u>Net Patient Service Revenue</u>	<u>2007</u>	<u>2006</u>
Gross patient revenue	\$3,848,468	\$3,622,173
Deductions:		
Medicare and Medicaid allowances	910,987	880,230
Other discounts and allowances	870,021	824,711
Charity care	158,517	125,518
Total	\$1,908,943	\$1,791,714

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note C – Net Patient Service Revenue (continued)

Significant portions of IHS' services are provided under agreements with the respective patients' health insurance carrier. The following summarizes the sources of payments for acute care hospital services for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Managed care and commercial	54%	53%
Medicare	30	32
Medicaid	8	8
Uninsured	8	7
Total	100%	100%

IHS agreements with third-party payers provide for payments to IHS at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- **Managed Care.** Under managed care plans, IHS is reimbursed for services provided under various contractual arrangements on a discounted fee basis, per diems or case rates. Patients who are covered by those contractual arrangements are obligated to pay IHS any copayment or deductible amounts required pursuant to the provisions of their managed care plans.
- **Medicare.** Inpatient acute and non-acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Capital expenditures and medical education costs are also reimbursed under prospectively determined rates. IHS is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by IHS and audits thereof by the Medicare fiscal intermediary. IHS' classification of patients under the Medicare program and the appropriateness of their admission may be subject to an independent review by a peer review organization.
- **Medicaid.** The Medicaid program is administered by the Department of Medical Assistance Services ("DMAS") of the Commonwealth of Virginia, pursuant to federal and state laws and regulations. DMAS receives funding for program expenditures from both the federal government and the Commonwealth of Virginia. Federal or state law or regulation may affect limits on Medicaid payment. For inpatient Medicaid and other state programs, IHCS, AHSC and LHI are reimbursed on an all payor-diagnostic related groups based prospective payment system.

Net patient service revenue includes estimated retroactive adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments are made known or as years are no longer subject to such audits, reviews and investigations. Retroactive adjustments in excess of amounts previously estimated did not have a material effect on net patient service revenue for 2007 and 2006. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note D – Property, Equipment and Leasehold Interests

The components of property, equipment and leasehold interests, at cost, and the related accumulated depreciation were as follows at December 31, 2007 and 2006 (in thousands):

	2007	2006
Land and land improvements	\$ 109,924	\$ 111,916
Buildings, fixed equipment and leasehold improvements	1,172,453	1,105,679
Major movable equipment	710,247	646,583
	1,992,624	1,864,178
Less allowances for depreciation and amortization	1,036,103	920,467
	956,521	943,711
Construction-in-progress	79,365	51,072
Total	\$1,035,886	\$ 994,783

Note E – Investments

Details of investments held as of December 31, 2007 and 2006 are as follows (in thousands):

Assets Whose Use Is Limited	2007		2006	
	Cost	Fair Market Value	Cost	Fair Market Value
Cash and cash equivalents	\$ 176,630	\$ 176,195	\$ 96,697	\$ 95,894
U.S. government securities	184,112	186,510	322,381	322,608
Corporate and other bonds	391,286	397,754	275,184	277,401
Equity securities	930,491	1,112,211	887,924	1,045,123
Alternative investments	187,536	186,526	122,436	131,122
Total	\$1,870,055	\$2,059,196	\$1,704,622	\$1,872,148

Unrestricted Long-term Investments	2007		2006	
	Cost	Fair Market Value	Cost	Fair Market Value
Cash and cash equivalents	\$ 41,788	\$ 42,290	\$ 41,989	\$ 42,306
U.S. government securities	110,667	113,080	38,620	40,256
Corporate and other bonds	15,926	18,239	10,886	12,468
Equity securities	49,138	67,203	46,061	62,682
Alternative investments	7,892	8,902	5,056	6,192
Total	\$225,411	\$249,714	\$142,612	\$163,904

Fair market values of publicly traded government and corporate securities were determined by year-end closing prices reported in the listings of the applicable major exchanges. IHS holds limited partnership interests in alternative investment funds that exceed 3% of the funds' value and therefore are accounted for under the equity method of accounting. These investments are stated at fair value as estimated in an unquoted market. Individual investment holdings within the investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, IHS' holdings may be determined by the investment manager or general partner and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note E – Investments (continued)

Investments are carried at estimated fair market value. Realized gains and losses from sales of investments are reflected in income for the period in which they occur. The average cost of the investment sold is used to determine the realized gain or loss. Interest and dividend income is reported net of investment-related expenses of \$6.8 million in 2007 and \$5.0 million in 2006. Gains of \$28.2 million related to alternative investments accounted for under the equity method are included in net realized gains on the statement of operations for the year ended December 31, 2007. For the year ended December 31, 2006, gains of \$9.8 million related to alternative investments was included in net unrealized gains. Investment returns for the years ended December 31, 2007 and 2006 are summarized as follows (in thousands):

	2007	2006
Interest and dividend income	\$ 65,452	\$ 54,160
Net realized gains	137,231	86,951
Other than temporary declines in fair market value of investments	(44,272)	(6,445)
Net unrealized gains	26,673	83,874
Total	\$ 185,084	\$ 218,540
Included in investment income and other, net	\$ 154,396	\$ 131,412
Increase in unrestricted net assets	27,672	82,781
Increase in temporarily restricted net assets	1,139	1,217
Increase in permanently restricted net assets	1,877	3,130
Total	\$ 185,084	\$ 218,540

Over the past several years, the investment market has experienced significant volatility, which impacted investments held by IHS. Prior to December 31, 2007, management continually reviewed its investment portfolio and evaluated whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation were the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the fair value was less than cost. IHS engages professionals to manage its investment portfolio within the guidelines of IHS's Board approved investment policy. As IHS does not place restrictions on the buying and selling of securities (other than those stated in the investment policy), as of December 31, 2007, all investment holdings with fair value less than cost by a significant amount were considered other-than-temporarily impaired. During the years ended December 31, 2007 and 2006, IHS recognized a loss for other-than-temporary declines in the fair market value of investments of approximately \$44.3 million and \$6.4 million, respectively.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note E – Investments (continued)

The following table summarizes the unrealized losses on investments that are considered to be temporary in nature at December 31, 2007 (in thousands):

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Cash equivalents	\$ 679	\$ (9)	\$ ---	\$ ---	\$ 679	\$ (9)
U.S. government securities*	(108,879)	(1,557)	(57,538)	(657)	(166,417)	(2,214)
Corporate and other bonds	114,713	(2,226)	22,512	(284)	137,225	(2,510)
Equity securities	81,171	(2,600)	---	---	81,171	(2,600)
Total	\$ 87,684	\$ (6,392)	\$ (35,026)	\$ (941)	\$ 52,658	\$ (7,333)

* U.S. government securities as of December 31, 2007 include short sale positions which carry a negative fair value.

The following table summarizes the unrealized losses on investments that are considered to be temporary in nature at December 31, 2006 (in thousands):

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Cash equivalents	\$ ---	\$ ---	\$ 1,486	\$ (19)	\$ 1,486	\$ (19)
U.S. government securities	87,334	(1,495)	179,164	(1,236)	266,498	(2,731)
Corporate and other bonds	65,752	(592)	89,988	(2,469)	155,740	(3,061)
Equity securities	54,353	(4,394)	158,787	(7,181)	213,140	(11,575)
Total	\$ 207,439	\$ (6,481)	\$ 429,425	\$ (10,905)	\$ 636,864	\$ (17,386)

Note F – Long-term Debt

The preponderance of IHS' debt is tax exempt revenue bonds issued under a Master Trust Indenture, which defines the obligated subsidiaries and affiliates under the bonds. The Members of the IHS Obligated Group include substantially all of the IHS operations exclusive of IHI, Inova VNA Home Care, Franconia-Springfield Surgery Center, LLC, Inova Physical Rehabilitation Services, UMC Holdings, Inc., Home Medical Essentials, LLC, McLean Assisted Living, LLC, Alexandria Hospital Foundation, Alexandria Medical Properties and Alexandria Community Health Care Group, Loudoun Nursing & Rehabilitation Center, Loudoun Health Services, Loudoun Services Group, Loudoun Ambulatory Surgery, LLC, Loudoun Healthcare Foundation and Northern Virginia Surgery Center, LLC.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note F – Long-term Debt (continued)

Long-term debt is comprised of the following at December 31, 2007 and 2006 (in thousands):

Description	Interest Rate/Payable	Final Maturity	Amounts Outstanding	
			2007	2006
Long-term Debt of the IHS Obligated Group:				
1988A, B, C, D Variable Rate Demand Obligation Revenue Bonds (“1988 Bonds”)	Variable, Maximum 15%/Monthly	10/1/25	\$49,500	\$ 50,500
1989A Variable Rate Demand Obligation Revenue Bonds (“1989A Bonds”)	Variable, Maximum 15%/Monthly	1/15/22	---	6,500
1993A Hospital Revenue Refunding Bonds (“1993A Bonds”)	Fixed 2.75% to 5.25%/Semi-Annual	8/15/23	95,910	99,850
1998A Health Care Revenue Refunding Bonds (“1998A Bonds”)	Fixed 4.0% to 5.0%/Semi-Annual	8/15/25	78,135	80,610
2000 Variable Rate Demand Health Care Revenue Bonds (“2000 Bonds”)	Variable, Maximum 12%/Monthly	1/1/30	71,100	72,700
2005A Variable Rate Demand Obligation Health Care Revenue Bonds (“2005A Bonds”)	Variable, Maximum 12%/Monthly	5/15/35	119,780	120,720
2005B Variable Rate Auction Health Care Revenue Bonds (“2005B Bonds”)	Variable, Maximum 15%/7-day	5/15/35	69,950	70,450
2005C Variable Rate Demand Obligation Health Care Revenue Bonds (“2005C Bonds”)	Variable, Maximum 12%/Monthly	5/15/26	95,620	99,400
2005D Variable Rate Auction Health Care Revenue Bonds (“2005D Bonds”)	Variable, Maximum 15%/7-day	5/15/26	69,700	72,500
2005E Variable Rate Auction Health Care Revenue Bonds (“2005E Bonds”)	Variable, Maximum 15%/7-day	4/15/35	205,200	205,200
Promissory Note Payable to Bank of America	Variable/Monthly	3/29/13	5,935	6,953
Total Long-term Debt of the IHS Obligated Group			860,830	885,383
Less: Current Portion of Long-term Debt			(347,075)	(360,553)
Original Issue Discount			(2,180)	(2,396)
Net Long-term Debt of the IHS Obligated Group			511,575	522,434
Net Long-term Debt of Non-Obligated IHS Affiliates:				
Promissory Note Payable to GMAC Commercial Mortgage Bank	Fixed 6.26%/Monthly	4/1/16	13,499	13,733
Promissory Note Payable to Cardinal Bank	Fixed 6.0%/Monthly	10/1/12	2,278	2,668
Promissory Note Payable to Cardinal Bank	Fixed 6.74%/Monthly	6/9/13	4,779	5,472
Total Long-term Debt of Non-Obligated IHS Affiliates			20,556	21,873
Less: Current Portion of Long-term Debt			(1,404)	(1,318)
Net Long-term Debt of Non-Obligated IHS Affiliates			19,152	20,555
Total Net IHS Long-term Debt			\$530,727	\$542,989

IHS estimates the December 31, 2007 and 2006 market value of its long-term debt, based on year-end closing prices for similar publicly traded securities, to be approximately \$886 million and \$917 million, respectively, compared with the face value of approximately \$878 million and \$905 million. The fair market value of all financial instruments other than investments and debt is estimated by management to approximate or equal their reported carrying value.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note F – Long-term Debt (continued)

The interest rate on the variable-rate bonds ranged between 2.75% and 5.21% in 2007 and 2.73% and 3.96% in 2006. Outstanding bonds are secured by an interest in all funds held by the Bond Trustee for purposes of debt service, construction and equipment acquisition. Each Member of the IHS Obligated Group covenants that it will not pledge or grant a security interest in (except as may be otherwise provided in the Master Trust Indenture) any of its property. The Master Trust Indenture for the IHS Obligated Group requires that certain minimum financial ratios be met.

The 1988, 2000, 2005A and 2005C bonds are supported by Liquidity Substitution Agreements (“LSAs”). The LSAs are among certain members of the IHS Obligated Group, the Tender Agent and the Custodian (as defined in the agreements) of certain Board designated investments. In the event that any or all of the bonds are unable to be remarketed, and IHS does not provide the Tender Agent with funds sufficient to retire the bonds, the Tender Agent is permitted to directly authorize the Custodian to liquidate investments in an amount equal to the purchase price for the unremarketed bonds. The portion of the Board designated investments that may be liquidated under the agreement (\$336.0 million and \$343.3 million at December 31, 2007 and 2006, respectively) are included in the current portion of assets whose use is limited. The 2005 auction rate securities do not include an optional tender feature requiring IHS to purchase bonds at the option of the holder. As such, these bonds are not supported by a liquidity substitution agreement. In the event IHS converts all or a portion of the auction rate securities to a variable rate demand mode, a liquidity substitution agreement would be required and the obligation would be classified as a current liability.

IHS’ obligation to pay principal and interest on the Series 2005 B, D, and E auction rate securities is insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation. Should payment from the insurance policy become necessary, Ambac would become the owner of the insured bonds.

The outstanding Series 1989A Variable Rate Demand Obligation Revenue Bonds, principal amount \$6.3 million, were redeemed in 2007. A loss of \$86 thousand was recognized related to early extinguishment of the debt.

The outstanding promissory note payable to Manufacturer’s Life Insurance Company issued by Alexandria Medical Properties, a subsidiary of AHSC, to purchase land and a medical office building was extinguished in 2006 in connection with the sale of the property. A loss of \$1.6 million was recognized related to the early extinguishment of the debt.

The promissory note payable to GMAC Commercial Mortgage Bank is secured by a mortgage on the property of McLean Assisted Living, LLC, a joint venture between IHSS (60% equity interest) and Sunrise Senior Living, Inc. (40% equity interest). The note is guaranteed by Sunrise Senior Living, Inc. The entire amount of the obligation is consolidated in the accompanying consolidated balance sheets.

Costs incurred in the issuance or conversion of long-term debt are deferred and amortized over the life of the related debt using the principal balance outstanding method.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note F – Long-term Debt (continued)

All bonds are subject to mandatory sinking fund redemption and to earlier redemption under certain circumstances as defined in the respective bond indenture agreements. Maturities of long-term debt for the five years succeeding December 31, 2007 are as follows (in thousands):

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Scheduled maturities	\$ 19,989	\$12,997	\$13,586	\$14,124	\$14,790
Bonds under remarketing agreement	328,490	----	----	----	----
Total	<u>\$348,479</u>	<u>\$12,997</u>	<u>\$13,586</u>	<u>\$14,124</u>	<u>\$14,790</u>

The following is a summary of interest incurred on the long-term debt, which approximates amounts paid (in thousands):

	<u>2007</u>	<u>2006</u>
Amounts capitalized	\$ 3,728	\$ 3,579
Amounts expensed	35,301	34,870
Total	<u>\$ 39,029</u>	<u>\$ 38,449</u>

Interest income from the trustee held funds relating to construction projects qualifying for interest capitalization was offset against related bond interest expense and capitalized to such projects. Amounts capitalized were approximately \$1.3 million for 2007 and approximately \$3.7 million for 2006.

The proceeds from the Series 2005 C, D and E bonds were deposited into irrevocable escrow accounts and invested in U.S. Treasury Securities and cash, the principal and interest from which is sufficient to pay the principal, interest and call premiums due on the 1996A and 2001 bonds, and the Loudoun 1995 and 2002A bonds as they are retired. At December 31, 2007 and 2006, the principal outstanding of these bonds was \$17.2 million and \$17.5 million, respectively.

In 2002, the 1993B AHSC Medical Facility Revenue Refunding Bonds, with principal outstanding in the amount of \$5.6 million, were defeased. Cash was transferred to an irrevocable escrow account and invested in State and Local Government Securities, the principal and interest from which is sufficient to retire the bonds at maturity. At December 31, 2007, the principal outstanding of these bonds was \$3.4 million.

IHCS has two unsecured bank lines of credit available each in the amount of \$20 million with a variable interest rate of LIBOR plus 0.50%. No amount was outstanding under these lines of credit at December 31, 2007 and 2006. IHS had outstanding bank letters of credit guaranteeing payment to different beneficiaries amounting to \$2.3 million and \$2.4 million at December 31, 2007 and 2006, respectively.

IHS has entered into interest rate swap agreements in conjunction with the issuance of variable rate bonds. Prior to January 1, 2006, \$19.1 million in accumulated derivative losses had been reported as changes in unrestricted net assets. For the years ended December 31, 2007 and 2006, IHS recognized a decrease in net assets of \$17.2 million and an increase in net assets of \$2.3 million, respectively, related to the change in fair market value of the swaps. A loss of \$1.1 million, and a gain of \$4.9 million, related to the ineffective portion of the hedge were recognized in excess of revenue over expenses for the years ended December 31, 2007 and 2006, respectively. The notional value of the hedges as of December 31, 2007 and 2006 was \$676 million and \$324 million, respectively. See Note B for additional information.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note F – Long-term Debt (continued)

Subsequent to December 31, 2007, certain events in the markets for debt instruments, particularly the auction rate securities markets, have impacted IHS. As a result of concerns over exposure to subprime debt, a number of large monoline bond insurers were downgraded or assigned “negative outlooks” by the major rating agencies (Standard & Poor’s, Moody’s and Fitch). In early 2008, interest rates began to rise on all municipal variable rate debt as investors became increasingly concerned about the solvency of bond insurers. The variable rate auction debt saw the sharpest increase in interest rates since virtually all auction debt is insured and this type of bond does not offer the investor an absolute right of redemption. As of December 31, 2007, IHS had \$345 million of outstanding variable rate auction debt insured by Ambac Assurance Corporation. IHS has experienced an increase in interest expense related to its auction debt subsequent to the date of the financial statements, and is actively evaluating options for restructuring its debt portfolio to reduce exposure to the auction rate security market. On February 22, 2008, IHS sent notice to its bond trustee of IHS’ intent to convert all of its auction debt to an alternative debt mode as provided under IHS’ master trust indenture.

Note G – Fairfax County Leases

The land upon which Inova Fairfax Hospital and Inova Mount Vernon Hospital are located and the related buildings and equipment are leased to IHCS by the Board of Supervisors of Fairfax County, Virginia ("County"), under an agreement that was renegotiated in 1991 (the "County Lease"). The County Lease has a 75-year term, which expires January 2066, and calls for lease payments of \$10 per annum. Accordingly, the property and equipment leased from the County are recorded as leasehold interests at the cost to construct or acquire. Upon termination of the County Lease, such property, including leasehold improvements and equipment will revert to the County, subject to all related long-term liabilities of IHCS incurred to finance the construction and acquisition of such property, buildings and equipment.

The County Lease also requires IHCS to set aside funds in an amount at least equal to the depreciation expense on the related leasehold interests. Such funds may be expended by IHCS for major repairs or alterations, construction of or additions to buildings, or the purchase or replacement of equipment. IHCS' Board of Trustees has also designated additional funds for the purpose of plant expansion.

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients' payment obligations under the policy are determined using a sliding income scale which is based on the federal poverty guidelines. During the term of the County Lease, IHCS has agreed to notify the County of any intent to incur additional debt in excess of \$1 million. IHCS has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than IHS, or any intent to change hospital rates.

In 1989, the Industrial Development Authority of Fairfax County, Virginia (the “IDA”) issued its Variable Rate Demand Obligation Revenue Bonds (Inova Services, Inc. Project) Series 1989A for the benefit of IHSS (see Note F) to refund a loan used in the acquisition, construction and equipping of the Cameron Glen Care Center and the renovation of a hospital facility into the Commonwealth Care Center. In connection with issuing the Series 1989A Bonds, the IDA acquired these properties as security for the Bonds and leased them to IHSS. The terms of the lease required IHSS to make rental payments sufficient to meet all debt service requirements of the Series 1989A Bonds. At the time of repayment of the Bonds, the lease expired and the titles to these properties reverted to IHSS. The Series 1989A Bonds were redeemed in full on November 7, 2007.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note H – Other Leases

IHS leases equipment, office space and certain facilities. Included in the operating expenses of IHS are lease expenses of approximately \$17.5 million in 2007 and \$17.0 million in 2006. Future minimum payments under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2007 (in thousands):

	<u>Operating Leases</u>
2008	\$ 14,261
2009	10,949
2010	8,914
2011	5,987
2012	4,803
Thereafter	<u>15,926</u>
Total lease payments	60,840
Less minimum income from noncancellable subleases	<u>(6,437)</u>
Total	<u>\$ 54,403</u>

Note I – Retirement Obligations

The IHS Retirement Income Plan (the “IHS Plan”) is a defined benefit pension plan that covers substantially all full-time employees of IHS except for the employees of LHI. The Loudoun Hospital Center Retirement Plan (the “Loudoun Plan”) is a defined benefit retirement plan that covers substantially all of the employees of LHI. The IHS Retiree Medical Plan (“Retiree Health Plan”) provides benefits to certain retirees and certain active employees who met age and length of service requirements as of September 1, 1993. The measurement date for all plans is September 30.

In September 2006, FASB issued Statement No. 158 *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (“Statement 158”).

On December 31, 2006, IHS elected to early adopt the recognition and disclosure provisions of Statement 158. Statement 158 requires IHS to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans on its consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses, and unrecognized prior service costs which were previously netted against the plans’ funded status on the consolidated balance sheet pursuant to the provisions of Statement 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to IHS’s historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in the adjustment to unrestricted net assets upon adoption of Statement 158.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note I – Retirement Obligations (continued)

The incremental effects of adopting the provisions of Statement 158 on the IHS consolidated balance sheet at December 31, 2006 are presented in the following table. The adoption of Statement 158 had no effect on the consolidated statement of income for the year ended December 31, 2007 and 2006, and it will not effect the IHS's operating results in future periods. Statement 158 requires that the recognition provisions be applied after adjusting for the change in the minimum pension liability recognized under the provisions of Statement 87 as of the end of the year of initial adoption. In accordance with Statement 87, no minimum pension liability was required to be recognized as of December 31, 2006 because the fair value of the plans' assets exceeded the accumulated benefit obligations.

	At December 31, 2006		As Reported at December 31, 2006
	Prior to Adopting Statement 158	Effect of Adopting Statement 158	
Prepaid Pension Asset	\$ 116,468	(105,459)	\$ 11,009
Retiree Health Liability-Current	\$ ---	1,670	\$ 1,670
Retiree Health Liability-Non Current	\$ 26,000	4,030	\$ 30,030
Unrestricted Net Assets	\$ 2,241,314	(111,159)	\$ 2,130,155

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the years ended December 31, 2007 and 2006 and the accumulated benefit obligation at December 31, 2007 and 2006 is as follows (in thousands):

	2007		2006	
	<u>Pension</u>	<u>Retiree Health</u>	<u>Pension</u>	<u>Retiree Health</u>
Projected Benefit Obligation				
Beginning of year	\$478,220	\$31,700	\$472,783	\$27,900
Service cost	19,869	186	18,976	200
Interest cost	25,651	1,747	24,442	1,500
Actuarial loss (gain)	(12,268)	(11,496)	(17,029)	3,300
Plan amendments	(3,775)	—	—	—
Benefits paid	(23,047)	(1,270)	(20,952)	(1,200)
End of year	<u>\$484,650</u>	<u>\$20,867</u>	<u>\$478,220</u>	<u>\$31,700</u>
	2007		2006	
	<u>Pension</u>	<u>Retiree Health</u>	<u>Pension</u>	<u>Retiree Health</u>
Fair Value of plan assets				
Beginning of year	\$489,229	\$ —	\$439,300	\$ —
Actual return on plan assets	80,855	—	36,581	—
Employer contributions	20,026	1,270	34,300	1,200
Benefits paid	(23,046)	(1,270)	(20,952)	(1,200)
End of year	<u>\$567,064</u>	<u>\$ —</u>	<u>\$489,229</u>	<u>\$ —</u>
Funded status at end of year	<u>\$82,414</u>	<u>(\$20,867)</u>	<u>\$11,009</u>	<u>(\$31,700)</u>

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note I – Retirement Obligations (continued)

Amounts recognized in the Consolidated Balance Sheet consist of:

Non-current assets	\$82,814	—	\$11,009	—
Current liabilities	—	(\$1,670)	—	(\$1,670)
Non-current liabilities	—	(\$19,197)	—	(\$30,030)

Amounts recognized in Unrestricted Net Assets consist of:

Prior service cost (credit)	(\$2,890)	—	\$505	—
Actuarial loss (gain)	\$37,446	(\$6,046)	\$104,954	\$5,700

Accumulated benefit obligation –

End of year	\$469,014	\$20,867	\$456,009	\$31,700
-------------	-----------	----------	-----------	----------

Net periodic benefit cost

Service cost	\$19,869	\$ 186	\$18,976	\$ 200
Interest cost	25,651	1,747	24,442	1,500
Expected return on plan assets	(31,626)	—	(31,494)	—
Amortization of prior service cost	(381)	—	(381)	—
Recognized actuarial loss	6,012	250	7,799	—
Net periodic benefit cost	<u>\$19,525</u>	<u>\$2,183</u>	<u>\$19,342</u>	<u>\$ 1,700</u>

IHS recognized a change in plan assets and benefit obligations for the pension and retiree health plans of approximately \$82.0 million for the year ended December 31, 2007. This gain is reflected as a change in unrestricted net assets and resulted primarily from the actual return on plan assets exceeding expected returns, favorable plan experience for the retiree health plan and an increase in discount rates.

The prior service cost and actuarial loss included in unrestricted net assets related to the pension plans which is expected to be recognized in net periodic pension cost during the year ended December 31, 2008 are \$0.7 million and \$2.5 million, respectively. The actuarial gain included in unrestricted net assets related to the retiree health plan and expected to be recognized in net periodic benefit cost during the year ended December 31, 2008 is \$0.4 million. No plan assets are expected to be returned to IHS for the year ended December 31, 2008.

<u>Additional Information</u>	<u>2007</u>		<u>2006</u>	
	<u>Pension</u>	<u>Retiree Health</u>	<u>Pension</u>	<u>Retiree Health</u>
<u>Assumptions</u>				
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	6.03%	6.03%	5.66%	5.66%
Rate of compensation increase	4.50%	—	4.50%	—
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	5.66%	5.66%	5.36%	5.36%
Rate of compensation increase	4.50%	—	4.00%	—
Expected long-term return on plan assets	7.25%	—	7.375%	—

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note I – Retirement Obligations (continued)

The assumed expected long-term return on plan assets is based on current and expected future asset allocations and long-term historic and expected future investment returns and is consistent with assumptions used by plans of similar size.

<u>Assumed health care cost trend rates at December 31:</u>	<u>2007</u>		<u>2006</u>
	Non-Medicare Eligible	Medicare Eligible	
Health care cost trend rate assumed for next year:			
Medical	6%	5%	7%
Prescription Drugs	9%	9%	11%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%	5%
Year that the rate reaches the ultimate trend rate:			
Medical	2009	2008	2007
Prescription Drugs	2012	2012	2012

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects (in thousands):

	<u>Retiree Health Plan</u>	
	<u>One Percentage Point Increase</u>	<u>One Percentage Point Decrease</u>
Effect on total of service and interest cost components	\$100	(\$100)
Effect on post-retirement benefit obligation	\$800	(\$600)

The weighted-average asset allocations for the pension plans at December 31, 2007 and 2006 by asset category are as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	4%	4%
U.S. Treasury obligations	—	1%
Asset backed securities	6%	10%
Corporate obligations	22%	17%
Equity securities	68%	68%
Total	<u>100%</u>	<u>100%</u>

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note I – Retirement Obligations (continued)

The overall financial objectives of the plans' assets are (1) together with contributions to the plans, to provide funds for the timely payment of the plans' obligations and (2) to produce an investment rate of return that minimizes contributions consistent with the first objective. The primary investment objective of the plans is to attain an average annual real total return of at least 5% over the long term (running five-year periods). To achieve its investment objective, the plans' assets are generally allocated 30% to fixed income investments and 70% to equity investments based on market value. The plans' investments are also diversified by asset class (e.g., equities, bonds, and cash equivalents) and within asset classes (e.g., within equities by economic sector, industry, quality, and size), in order to provide assurance that no single security or class of securities will have a disproportionate impact on the plans.

Effective January 1, 2008, the Loudoun Plan will be terminated, and all LHI employees will become participants under the IHS Plan. IHS does not expect to make any contributions to the IHS Plan in 2008.

Inova Health System's expected future benefit payments, which reflect expected future service as appropriate, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Pension</u>	<u>Retiree Health</u>	<u>Medicare Drug Subsidy</u>
2008	\$ 27,003	\$ 1,760	\$ (210)
2009	27,962	1,880	(210)
2010	28,213	1,980	(190)
2011	29,329	2,040	(170)
2012	32,551	2,080	(170)
2013 to 2017	175,808	10,710	(710)

IHS also sponsors the Inova Health System Retirement Savings Plan (401K Plan) that covers the same groups covered under the IHS Plan. IHS sponsors two additional defined contribution plans that cover substantially all employees of IHSS (IHSS Plan) and the former employees of Inova Medical Group (IMG Plan). LHI sponsors a defined contribution 401K plan (Loudoun 401K Plan) that covers substantially all employees of LHI. Employees may contribute to the 401K Plan, the IHSS Plan, and the Loudoun 401K Plan and IHS may contribute to these plans in varying amounts. Defined contribution benefit expense was \$14.2 million and \$12.6 million in 2007 and 2006, respectively. Employees of IMG could contribute to the IMG Plan until IMG was divested in 2001. No employer contributions were made to the IMG Plan in either 2007 or 2006.

Note J – Malpractice Insurance

IHS obtains coverage for professional and general liability through claims-made policies issued by the Virginia Health Systems Alliance Interinsurance Exchange, a Risk Retention Group ("VHSAX"). VHSAX, an affiliate of IHS (see Note B), is a multi-provider reciprocal insurance company licensed in the State of Vermont.

For claims reported in 2007 and 2006, VHSAX retained risk of \$2 million per claim and \$19 million in annual aggregate. Additional risk is reinsured in umbrella forms through Lloyds of London, other European companies, Zurich North American, and CNA, together providing limits of \$50 million per claim, and \$50 million in the aggregate, in excess of the VHSAX retention.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note J – Malpractice Insurance (continued)

IHS accounts for its interest in VHSAX using the equity method. The following information summarizes the financial position and results of operations of IHS' interest in VHSAX as of and for the years ended December 31, 2007 and 2006 (in thousands):

	2007 (Unaudited)	2006
Assets	\$50,300	\$ 44,660
Liabilities	21,066	22,216
Net assets	29,234	22,444
Total liabilities and net assets	\$ 50,300	\$ 44,660
Revenues	\$ 12,076	\$ 11,360
Expenses	7,938	9,758
Operating income	4,138	1,602
Non-operating income	3,680	4,693
Net income	\$ 7,818	\$ 6,295

VHSAX assumes liability for claims that have been reported under claims-made policies. For incidents which have occurred but have not yet been reported, IHS accrues an additional liability based on actuarial estimates. As of December 31, 2007 and 2006, \$15.2 million and \$14.1 million, respectively, was accrued on a discounted basis.

Note K – Other Commitments and Contingencies

IHCS, AHSC, and LHI have entered into several contracts for the acquisition of equipment and for the construction of facilities. Future commitments under these contracts at December 31, 2007 were approximately \$50 million. IHS currently anticipates that these projects will be financed with a combination of bond proceeds, funds generated from earnings and donations. These projects include expansion of Alexandria Hospital and Fairfax Hospital facilities.

In August 2006, IHS settled a lawsuit at its home health agency filed under the Federal and Virginia False Claims Acts. Under the settlement agreement, IHS paid approximately \$10 million. IHS admits no liability under the settlement agreement. IHS' home health agency will also be subject to a corporate integrity agreement for a period of five years.

IHS is subject to various legal claims and contingencies arising in the ordinary course of Inova's business. While the outcomes of such matters are uncertain, management believes that their ultimate resolution will not have a material adverse effect on IHS' financial position or on the changes in its net assets or cash flows.

Inova Health System
Notes To Consolidated Financial Statements
December 31, 2007 and 2006

Note L – Functional Expenses

IHS provides various health care services to patients within its geographic region. Operating expenses related to providing these services for the years ended December 31, 2007 and 2006 are as follows (in thousands):

	2007	2006
Health care services	\$1,681,406	\$1,569,868
General and administrative	165,237	164,104
Total	\$1,846,643	\$1,733,972

Note M – Prince William Health System Merger

On August 1, 2006, Inova Health System Foundation (IHSF) and the Prince William Health System, Inc. (PWHS) signed a definitive agreement, pursuant to which IHSF shall become the parent of PWHS. The transaction will rapidly expand the delivery of comprehensive, sophisticated and advanced health care services to meet the needs of the fast growing communities of Prince William County, Virginia. Upon closing of the transaction, IHSF will become the sole member of PWHS. PWHS is the sole member of Prince William Hospital, a 170 bed, general acute care hospital located in Prince William County and several other tax exempt and taxable corporations. IHSF will make an investment of over \$200 million to upgrade and expand services in Prince William County over the next several years. The transaction must be reviewed by the Federal Trade Commission and the Virginia Attorney General's office prior to closing. Such review is currently underway.

Report of Independent Auditors

The Board of Trustees
Inova Health System

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following other financial information, as described on the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

March 12, 2008

IHS Obligated Group
Consolidated Balance Sheets
For the Year-to-Date ended December 31, 2007 and 2006
(Dollars in thousands)

	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 43,103	\$ 40,184
Assets whose use is limited:		
Required to meet current obligations	3,150	2,315
By board for plant replacement and expansion	336,000	347,138
Securities lending collateral	260,434	-
Patient accounts receivable less allowance for doubtful accounts: 2007 - \$78,151; 2006 - \$72,412	246,777	253,849
Third-party settlements	1,304	655
Other current assets	48,430	47,955
Total Current Assets	<u>939,198</u>	<u>692,096</u>
Property, Equipment and Leasehold Interest		
Land and land improvements	106,293	108,284
Buildings, fixed equipment and leasehold improvements	1,145,317	1,079,515
Major movable equipment	694,302	630,907
	<u>1,945,912</u>	<u>1,818,706</u>
Less allowances for depreciation and amortization	1,015,503	902,648
	<u>930,408</u>	<u>916,058</u>
Construction-in-progress	79,354	51,050
Total Property, Equipment and Leasehold Interest	<u>1,009,763</u>	<u>967,109</u>
Assets Whose Use Is Limited		
Held by bond trustee	44,300	83,015
By Board for plant replacement and expansion (including securities on loan: 2007 - \$269,917; 2006 - \$0)	1,929,458	1,706,294
By Donor	67,483	65,537
Total Assets Whose Use Is Limited	<u>2,041,242</u>	<u>1,854,847</u>
Less amounts required to meet current obligations	339,150	349,453
	<u>1,702,092</u>	<u>1,505,394</u>
Other Assets		
Unrestricted long-term investments	233,511	149,441
Investments in and receivables from affiliates	1,293	3,934
Deferred debt issuance costs	6,290	6,794
Pension asset - long-term	82,414	10,977
Other long-term assets	31,894	15,977
Total Other Assets	<u>355,401</u>	<u>187,123</u>
TOTAL ASSETS	<u><u>\$ 4,006,453</u></u>	<u><u>\$ 3,351,721</u></u>

IHS Obligated Group
Consolidated Balance Sheets
For the Year-to-Date ended December 31, 2007 and 2006
(Dollars in thousands)

	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 131,014	\$ 117,250
Accrued salaries, wages and related items	100,520	88,391
Third-party settlements	29,187	27,708
Notes payable and other liabilities	8,267	10,254
Securities lending payable	260,434	-
Current portion of long-term debt	347,075	360,553
Total Current Liabilities	<u>876,497</u>	<u>604,155</u>
Non-current Liabilities		
Long-term debt, less current portion	511,576	522,434
Postemployment health care and retirement benefits	19,197	30,030
Other non-current obligations	45,368	31,287
Estimated professional liability	15,211	14,350
Total Noncurrent Liabilities	<u>591,352</u>	<u>598,101</u>
Net Assets		
Unrestricted	2,461,198	2,076,330
Temporarily restricted	40,904	38,487
Permanently restricted	36,502	34,648
Total Net Assets	<u>2,538,604</u>	<u>2,149,465</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 4,006,453</u></u>	 <u><u>\$ 3,351,721</u></u>

NOTE: The IHS Obligated Group includes Inova Health System Foundation; Inova Health Care Services excluding Inova VNA Home Care and Franconia-Springfield Surgery Center, LLC; Inova Health System Services excluding Inova Physical Rehabilitation Services, UMC Holdings, Inc., Home Medical Essentials, LLC, McLean Assisted Living, LLC; Inova Alexandria Health Services Corporation excluding Alexandria Hospital Foundation, Alexandria Medical Properties and Alexandria Community Healthcare Group; and Loudoun Healthcare Inc. and Loudoun Hospital Center. The IHS Obligated Group information presented above is derived from the audited financial statements of Inova Health System and excludes the accounts of all the Inova Health System non-obligated affiliates and subsidiaries.

IHS Obligated Group
Consolidated Statements of Operations
For the Year-to-Date ended December 31, 2007 and 2006
(Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Net patient service revenue	\$1,834,834	\$1,727,392
Other operating revenue	<u>65,526</u>	<u>68,391</u>
Total Operating Revenues	1,900,360	1,795,783
Operating Expenses		
Salaries and benefits	949,300	877,350
Other	601,501	571,094
Depreciation and amortization	123,138	115,943
Interest	34,112	33,485
Provision for bad debts	71,421	71,062
Loss on extinguishment of debt	86	-
Total Operating Expenses	<u>1,779,557</u>	<u>1,668,934</u>
Operating Income	120,803	126,849
Non-operating Revenues (Expenses)		
Investment income and other, net	<u>168,263</u>	<u>142,287</u>
Excess of revenues over expenses	289,065	269,136
Change in unrealized (losses)/gains on investments, net	26,062	82,816
Change in fair value of interest rate swaps	(17,230)	2,298
Capital Reimbursement from Grants	807	-
Minimum pension liability adjustment	-	110,725
Effect of adoption of recognition provisions of SFAS 158	-	(111,159)
Actuarial Gain on Pension and Retiree Health Plans	81,986	-
Net assets released from restriction for purchase of equipment	4,341	5,585
Other	<u>(163)</u>	<u>751</u>
Increase in unrestricted net assets	<u><u>\$ 384,868</u></u>	<u><u>\$ 360,152</u></u>

NOTE: The IHS Obligated Group includes Inova Health System Foundation; Inova Health Care Services excluding Inova VNA Care and Franconia-Springfield Surgery Center, LLC; Inova Health System Services excluding Inova Physical Rehabilitation Services, UMC Holdings, Inc., Home Medical Essentials, LLC, McLean Assisted Living, LLC; Inova Alexandria Health Services Corporation excluding Alexandria Hospital Foundation, Alexandria Medical Properties and Alexandria Community Healthcare Group; and Loudoun Healthcare Inc. and Loudoun Hospital Center. The IHS Obligated Group information above is derived from the audited financial statements of Inova Health System and excludes the accounts of all the Inova System non-obligated affiliates and subsidiaries.

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APPENDIX C

DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF PRINCIPAL DOCUMENTS

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DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF PRINCIPAL DOCUMENTS

Brief descriptions of the Master Indenture, the Trust Agreements, the Loan Agreements and the Liquidity Agreements are included in this Appendix C. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Master Indenture, the Trust Agreements, the Loan Agreements and the Liquidity Agreements are qualified in their entirety by reference to each such document, copies of which are available for review at the offices of U.S. Bank National Association, as Bond Trustee.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

Definitions of Certain Terms

“Additional Indebtedness” means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the initial Obligations under the Master Indenture or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group or by any Member of the Combined Group subsequent to its becoming a Member of the Combined Group.

“Affiliate” means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by Inova, by any other Affiliate or by any Person which directly or indirectly controls Inova or which directly or indirectly controls any other Affiliate; provided, however, that the term “Affiliate” shall not include Inova. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

“Alexandria Health Services” means Inova Alexandria Health Services Corporation, a Virginia nonstock corporation and its legal successors.

“Alexandria Hospital” means Inova Alexandria Hospital, a Virginia nonstock corporation and its legal successors.

“Audited Financial Statements” means, as to any Member of the Combined Group, financial statements for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants. Audited Financial Statements of Inova shall also include, in an additional information section, unaudited combining financial statements for the same twelve-month period from which the accounts of any affiliate which is not a Member of the Combined Group have been eliminated and to which the accounts of any Member of the Combined Group which is not already included have been added; provided, however, that for purposes of adding the accounts of a Member of the

Obligated Group which is not an affiliate, the balances of such accounts shall be extracted from audited financial statements of such Member of the Combined Group and its affiliates, if any.

“Authorized Representative” means, with respect to Inova, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer, and, with respect to each other Member of the Obligated Group, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer or any other person or persons designated an Authorized Representative of Inova or any other Member of the Obligated Group by an Officer’s Certificate of Inova or such Member of the Obligated Group, respectively, signed by the Chairperson of its Governing Body or its chief executive officer or chief financial officer and filed with the Master Trustee.

“Balloon Long-Term Indebtedness” means Long-Term Indebtedness twenty percent (20%) or more of the principal payments of which are due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such year, but not including (i) the portion of such Long-Term Indebtedness that is equal to the aggregate of the principal payments to be made on such Long-Term Indebtedness in each year in which the total principal due in such year is less than twenty percent (20%) of the initial aggregate principal amount of such Long-Term Indebtedness and (ii) payments of purchase price on Long-Term Indebtedness that is subject to tender by the owner thereof.

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

“Capitalization” means the sum of the aggregate Long-Term Indebtedness of the Members of the Combined Group excluding any Cross-over Refunded Indebtedness, plus the aggregate unrestricted fund balance of the nonstock or non-profit Members of the Combined Group and plus the aggregate excess of assets over liabilities of the proprietary Members of the Combined Group, if any, all as calculated in accordance with generally accepted accounting principles.

“Code” means the Internal Revenue Code of 1986, as amended.

“Combined Group” means collectively the Members of the Combined Group.

“Completion Indebtedness” means any Long-Term Indebtedness incurred by any Member of the Combined Group for the purpose of financing the completion of facilities for the acquisition, construction or equipping of which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such facility

as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness theretofore incurred was originally incurred.

“Consultant” means a firm or firms which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant of national repute for having the skill and experience necessary to render the particular report required by the Master Indenture and which is not unacceptable to the Master Trustee.

“Corporate Charter” means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

“Corporate Trust Office” means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located in Richmond, Virginia.

“Corporation” means Inova Health Care Services, a Virginia nonstock corporation and its legal successors.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement, liquidity facility or liquidity agreement established in connection with the issuance of indebtedness to provide credit or liquidity support for such indebtedness.

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

“Cross-over Refunded Indebtedness” means Indebtedness refunded by Cross-over Refunding Indebtedness.

“Cross-over Refunding Indebtedness” means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or dates or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on such refunding Indebtedness or Refunded Indebtedness until the Cross-over Date.

“Defeased Obligations” means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to the terms of such Supplement.

“Derivative Agreement” means any type of contract or arrangement that the Member of the Combined Group or Limited Obligor entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness or to convert any element of Indebtedness from one form to another, including, without limitation, (i)

any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; or (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls or to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk.

“Derivative Agreement Counterparty” means, with respect to a Derivative Agreement, the Person that is identified in such agreement as the counterparty to, or contracting party with, the Member of the Combined Group or Limited Obligor that is party to such agreement.

“Derivative Indebtedness” means Indebtedness or any portion thereof with respect to which a Member of the Combined Group or a Limited Obligor shall have entered into a Derivative Agreement.

“Escrowed Interest” means amounts deposited in escrow in connection with the issuance of Long-Term Indebtedness or Related Bonds to pay interest on such Long-Term Indebtedness or Related Bonds and amounts irrevocably deposited in escrow in connection with the issuance of Cross-over Refunding Indebtedness or Related Bonds secured by such Cross-over Refunding Indebtedness or earnings on such amounts which are required to be applied to pay interest on such Cross-over Refunding Indebtedness or the related Cross-over Refunded Indebtedness or Related Bonds secured by either thereof.

“Financial Statements” means the unaudited combining financial statements of the Combined Group included, in an additional information section, in the Audited Financial Statements of Inova and its affiliates and covering the same twelve-month period as the Audited Financial Statements, which shall be extracted from the Audited Financial Statements and (i) from which the accounts of any affiliate which is not a Member of the Combined Group have been eliminated and (ii) to which the accounts of any Member of the Combined Group which is not already included have been added; provided, however, that for purposes of adding the accounts of a Member of the Combined Group which is not an affiliate pursuant to this clause (ii), the balances of such accounts shall be extracted from audited financial statements of such Member of the Combined Group and its affiliates, if any.

“Fiscal Year” means the fiscal year of each Member of the Obligated Group, which shall be the period commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by Inova of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

“Governing Body” means, when used with respect to any Member of the Combined Group, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such Member of the Obligated Group are exercised.

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

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

“Guaranty” means any obligation of any Member of the Combined Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Combined Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Combined Group, constitute Indebtedness under the Master Indenture. For the purposes of the Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Combined Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to 20% of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty shall have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Ratio), provided that if there shall have occurred a payment by any Member of the Combined Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account.

“Holder” means the owner of any Obligation issued in other than bearer form.

“Income Available for Debt Service” means, with respect to the Combined Group, as to any period of 12 consecutive calendar months, (i) its excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied plus (ii) the Limited Obligor Income for each Limited Obligor; provided, however, that (1) no determination thereof shall take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business; (2) revenues shall not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness; (3) no determination thereof shall take into account any extraordinary gains or losses or unrealized gains or losses resulting from the periodic valuation of investments or Derivative Agreements, provided that, for such purposes, in determining the gain or loss from the sale or disposition of any asset for which any other-than-temporary impairment loss has theretofore been recognized, any such gain shall be reduced, and any such loss shall be increased, by the amount of such loss theretofore recognized; (4) no determination thereof shall

take into account the financial results of any Affiliate (other than a Limited Obligor in accordance with clause (ii) above) of any Member of the Combined Group that is not a Member of the Combined Group; (5) no determination thereof shall take into account any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets; (6) with respect to Derivative Indebtedness, any amount of regularly scheduled payments made by a Member of the Combined Group to a Derivative Agreement Counterparty shall be treated as an interest expense and any amount of regularly scheduled payments made by a Derivative Agreement Counterparty to a Member of the Combined Group shall offset interest expense and shall not be included in revenue; provided, however, that with respect to any Derivative Indebtedness that, in determining the Long-Term Debt Service Requirement pursuant to clause (iv)(B)(y) of the definition thereof, the interest on which is calculated as if the related Derivative Agreement had not been executed, no amounts payable by either party to the Derivative Agreement shall be taken into account in determining Income Available for Debt Service; and (7) any payment made by any Member of the Combined Group under a Guaranty guaranteeing any obligation of any Person other than a Member of the Combined Group shall be treated as an interest expense.

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

“Initial Group” means Inova, the Corporation, Services, Alexandria Hospital, Alexandria Health Services, Loudoun Healthcare and Loudoun Hospital.

“Inova” means Inova Health System Foundation, a Virginia nonstock corporation and its legal successors.

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

“Lien” means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Combined Group which secures any Indebtedness or any other obligation of any Member of the Combined Group or which secures any obligation of any Person, other than an obligation to any Member of the Combined Group.

“Limited Obligor” means any Person, other than a Member of the Combined Group, on whose account any Member of the Obligated Group has issued a Guaranty as consideration for such Person’s execution and delivery to such Member of the Obligated Group of a Pledged Note.

“Limited Obligor Income” means with respect to each Limited Obligor, as to any period of 12 consecutive calendar months, the lesser of (i) the amount included in the Long-Term Debt Service Requirement relating to any Guaranty by a Member of the Combined Group of any indebtedness of the Limited Obligor or (ii) the Limited Obligor Income Available for Debt Service; provided that if the amount included in the Long-Term Debt Service Requirement for such period is at any time equal to 100% of the debt service on such indebtedness instead of 20%, the Limited Obligor Income for such period shall be equal to zero.

“Limited Obligor Income Available for Debt Service” means, with respect to any Limited Obligor, as to any period of 12 consecutive calendar months, its excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof shall take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business; (2) revenues shall not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness; (3) no determination thereof shall take into account any extraordinary gains or losses or unrealized gains or losses resulting from the periodic valuation of investments or Derivative Agreements, provided that, for such purposes, in determining the gain or loss from the sale or disposition of any asset for which any other-than-temporary impairment loss has theretofore been recognized, any such gain shall be reduced, and any such loss shall be increased, by the amount of such loss theretofore recognized; (4) no determination thereof shall take into account any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets; and (5) with respect to Derivative Indebtedness, any amount of regularly scheduled payments made by a Limited Obligor to a Derivative Agreement Counterparty shall be treated as an interest expense and any amount of regularly scheduled payments made by a Derivative Agreement Counterparty to a Limited Obligor shall offset interest expense and shall not be included in revenue; provided, however, that with respect to any Derivative Indebtedness that would be treated as if the related Derivative Agreement had not been executed in determining the Long-Term Debt Service Requirement pursuant to clause (iv)(B)(y) of the definition thereof if such Derivative Indebtedness were Derivative Indebtedness of a Member of the Combined Group, no amounts payable by either party to the Derivative Agreement shall be taken into account in determining Limited Obligor Income Available for Debt Service.

“Long-Term Debt Service Coverage Ratio” means for any period of time the ratio determined by dividing the Income Available for Debt Service by Maximum Annual Debt Service.

“Long-Term Debt Service Requirement” means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on Outstanding Long-Term Indebtedness of the Combined Group during such period, also taking into account:

(i) with respect to Balloon Long-Term Indebtedness, the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years (or, if the term thereof exceeds thirty (30) years, over a period equal to such term) on a level debt service basis at an interest rate equal to, at the option of the Obligated Group, either (1) the Bond Index (provided that this clause (1) shall be applicable only in the case of Indebtedness the interest on which is tax-exempt) or (2) the interest rate set forth in an opinion of a banking institution or an investment banking institution knowledgeable in health care finance delivered to the Master Trustee as the interest rate at which the Combined Group could reasonably expect to borrow the same by issuing an Obligation with the same term as assumed above; provided, however, that if any Member of the Combined Group has obtained a commitment on commercially reasonable terms from a financial institution providing for the refinancing of any Balloon Long-Term Indebtedness over a period of at least eighteen (18) months, then such Long-Term Indebtedness will be amortized in accordance with the repayment schedule for the Indebtedness to be incurred pursuant to such commitment and, provided further that, unless a commitment for refinancing has been obtained, if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation;

(ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated (A) for any historical computation, at the rate which is equal to the weighted average of the actual interest rates which were in effect for such period, (B) for any historical pro forma or forecasted computation with respect to Variable Rate Indebtedness incurred prior to the date of computation, (1) at the rate which is equal to the weighted average of the actual interest rates which were in effect during the five-year period ending on the date of computation or (2) if such Variable Rate Indebtedness was incurred less than five years prior to the date of computation, at the rate which is equal to the weighted average of the actual interest rates which were in effect during the period since such Variable Rate Indebtedness was incurred, provided such period is not less than one year, or (3) in all other instances, at a rate equal to (X) the most recently available five-year running average of the SIFMA Municipal Swap Index as of the date of computation (provided that this clause (X) shall be applicable only in the case of Variable Rate Indebtedness the interest on which is not includable in gross income for purposes of federal income taxation), or (Y) the interest rate set forth in a certificate of a firm of investment bankers or a financial advisory firm knowledgeable in health care finance delivered to the Master Trustee as the interest rate which the Member of the Combined Group incurring such Indebtedness could reasonably expect to pay or have paid during the computation period, and (C) for any historical pro forma or forecasted computation with respect to Variable Rate Indebtedness that is proposed to be incurred, at a rate determined in accordance with clause (B)(3) of this paragraph (ii);

(iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement; and

(iv) with respect to Derivative Indebtedness, (A) for any historical computation, the interest on such Indebtedness shall be calculated by adding (x) the amount of interest paid by a Member of the Combined Group on such Derivative Indebtedness pursuant to its terms and (y) the amount of regularly scheduled payments made by such Member of the Combined Group pursuant to the Derivative Agreement and subtracting (z) the amount of regularly scheduled payments made by the Derivative Agreement Counterparty pursuant to the Derivative Agreement; and (B) for any historical pro forma or forecasted computation, (x) if the Derivative Agreement Counterparty has a long-term credit rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by each Rating Agency then rating such Derivative Agreement Counterparty and has not defaulted on its payment obligations thereunder as of the date of computation, the interest on such Indebtedness shall be calculated by adding (I) the amount of interest payable by a Member of the Combined Group on such Derivative Indebtedness pursuant to its terms and (II) the amount of regularly scheduled payments payable by such Member of the Combined Group pursuant to the Derivative Agreement and subtracting (III) the amount of regularly scheduled payments payable by the Derivative Agreement Counterparty pursuant to the Derivative Agreement; and (y) in all other instances, the amount of interest payable by the Member of the Combined Group on such Derivative Indebtedness shall be calculated as if such Derivative Agreement had not been executed; provided, however, that, for any historical pro forma or forecasted computation, any floating payment rate specified in the Derivative Agreement shall be calculated (I) at the rate which is equal to the weighted average of the floating payment rates (X) which were in effect during the five-year period ending as close as possible to the date of computation, or (Y) if such Derivative Agreement was entered into less than five years prior to the date of computation or such Derivative Indebtedness has not yet been incurred, which would have been in effect during such five-year period if such Derivative Agreement had been in effect for such period and the rate can be determined based on the variables provided in the Derivative Agreement and (II) in all other instances, (X) at the rate which is equal to the weighted average of the floating payment rates which were in effect from the date the Derivative Agreement became effective to as close as possible to the date of computation, provided that such period is not less than one year, or (Y) if the rate cannot be determined under clause (II)(X), at the rate set forth in a certificate of a firm of investment bankers or a financial advisory firm knowledgeable in health care finance delivered to the Master Trustee as the floating payment rate which such institution reasonably expects to be in effect during the projected computation period; and provided, further, that, in lieu of relying on a certificate pursuant to clause (II)(Y) of the preceding proviso, the Obligated Group Representative may elect, as evidenced by an Officer’s Certificate, to determine the amount of interest payable by a Member of the Combined Group on such Derivative Indebtedness as if such Derivative Agreement had not been executed;

provided, however, that (a) interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent that Escrowed Interest is available to pay such interest and (b) principal on Cross-over Refunded Indebtedness shall be excluded from the determination of Long-Term Debt Service Requirement to the extent that proceeds of Cross-over Refunding Indebtedness or Related Bonds secured thereby are on deposit in an irrevocable escrow and such

proceeds or the earnings thereon are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal.

“Long-Term Indebtedness” means all Indebtedness having a maturity longer than one year incurred or assumed by any Member of the Combined Group, including:

- (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;
- (ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;
- (iii) installment sale or conditional sale contracts having an original term in excess of one year;
- (iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and
- (v) the current portion of Long-Term Indebtedness.

“Loudoun Healthcare” means Loudoun Healthcare, Inc., a Virginia nonstock corporation and its legal successors

“Loudoun Hospital” means Loudoun Hospital Center, a Virginia nonstock corporation and its legal successors

“Master Indenture” means the Amended and Restated Master Trust Indenture, dated as of April 1, 2008, including any amendments or supplements thereto, which Amended and Restated Master Trust Indenture amends and restates in its entirety the Existing Master Indenture.

“Master Trustee” means U.S. Bank National Association, Richmond, Virginia, and its successors in the trusts created under the Master Indenture.

“Maximum Annual Debt Service” means the highest Long-Term Debt Service Requirement for any succeeding Fiscal Year.

“Member of the Obligated Group” means Inova, the Corporation, Services, Alexandria Hospital, Alexandria Health Services, Loudoun Healthcare and Loudoun Hospital and any other Person becoming a Member of the Obligated Group pursuant to the Master Indenture.

“Member of the Combined Group” means each Member of the Obligated Group and each Restricted Affiliate.

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

“Non-Recourse Indebtedness” means any Indebtedness incurred to finance, the purchase of Property secured by a Lien on such Property, the liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

“Obligated Group” means, collectively, the Members of the Obligated Group.

“Obligated Group Representative” means initially Inova and thereafter any Person as may be designated pursuant to written notice to the Master Trustee executed by all of the Members of the Obligated Group.

“Obligation” means the evidence of particular Indebtedness issued under the Master Indenture as a joint and several obligation of Inova and each other Member of the Obligated Group.

“Officer’s Certificate” means a certificate signed by the Authorized Representative of such Member of the Obligated Group as the context requires.

“Operating Assets” means any or all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory owned or operated by each Member of the Combined Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities and other Property held for investment purposes.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

“Outstanding” when used with reference to Indebtedness or Obligations, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, (iii) Defeased Obligations and (iv) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated,

destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Indenture, Obligations or Related Bonds that are owned by any Member of the Combined Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member shall be deemed not to be Outstanding; provided further, however, that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction consent, or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be deemed to be not Outstanding.

“Permitted Liens” shall have the meaning given under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Creation of Liens”.

“Person” includes an individual, association, unincorporated organization, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

“Pledged Note” means a promissory note executed by a Limited Obligor, as maker, in favor of a Member of the Obligated Group, as payee, evidencing a sum certain liability of such maker to such payee, which is assigned by such payee to the Master Trustee.

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

“Property, Plant and Equipment” means all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

“Related Bond Indenture” means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“Related Bond Issuer” means the issuer of any issue of Related Bonds.

“Related Bonds” means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (“governmental issuer”), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to (i) a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer, or (ii) any Person other than a Member of the Obligated Group in consideration of the issuance to such governmental issuer (A) by such Person of any indebtedness or other obligation of such Person, and (B) by a Member of the Obligated Group of a Guaranty in respect of such indebtedness or other obligation, which Guaranty is represented by an Obligation.

“Related Bond Trustee” means the trustee and its successors in the trusts created under any Related Bond Indenture.

“Restricted Affiliate” means any Affiliate of a Member of the Obligated Group that:

(1) is either (a) a nonstock membership corporation of which one or more Members of the Obligated Group are the sole members, or (b) a nonstock, non-membership corporation or a trust of which the sole beneficiaries or controlling Persons are one or more Members of the Obligated Group, or (c) a stock corporation all of the outstanding shares of stock of which are owned by one or more Members of the Obligated Group, and

(2) (a) if such Affiliate is a nonstock corporation or a trust, the corporate charter or bylaws, in the case of a nonstock corporation, and the applicable organizational documents, in the case of a trust, shall provide that the net assets of such Affiliate shall be transferred to the Member of the Obligated Group that is its sole member, beneficiary or controlling person upon liquidation or dissolution of such Affiliate, provided that if such Affiliate is an organization described in Section 501(c)(3) of the Code, then for so long as the applicable Member of the Obligated Group is an organization described in Section 501(c)(3) of the Code, the organizational documents of such Affiliate and applicable law may (A) provide for the naming of another Member of the Obligated Group as a substitute beneficiary if the then current beneficiary ceases to be an organization described in Section 501(c)(3) of the Code and (B) prohibit transfers to organizations not described in Section 501(c)(3) of the Code, and

(b) (i) is organized for the purpose, among others, of aiding and lending financial support and assistance to the Member of the Obligated Group that is its sole member, beneficiary or controlling person, (ii) the power to alter, amend or repeal the corporate charter or bylaws or other applicable organizational documents of such Affiliate, or to adopt new bylaws for such entity, shall be reserved to the Member of the Obligated Group that is its sole member, beneficiary or controlling person and (iii) the Member of the Obligated Group that is its sole member, beneficiary or controlling Person shall have the sole right to appoint and dismiss, with or without cause, the members of the board of directors of such Affiliate, and

(c) has (i) the legal power, with approval of a majority of its Governing Body but without the consent of any other Person, to transfer to any Member of the Obligated Group money required for the payment of Indebtedness of any Member, of the Obligated Group, and (ii) the ability under applicable law and its organizational documents, with approval of a majority of the members of its Governing Body, to transfer all assets of such Affiliate remaining after payment of its debts to any Member of the Obligated Group provided that if such Affiliate is an organization described in Section 501(c)(3) of the Code, then for so long as the applicable Member of the Obligated Group is an organization described in Section 501(c)(3) of the Code, the organizational documents of such Affiliate and applicable law may (A) provide for the naming of another Member of the Obligated Group as a substitute beneficiary if the then current beneficiary ceases to be

an organization described in Section 501(c)(3) of the Code and (B) prohibit transfers to organizations not described in Section 501(c)(3) of the Code, and

(3) has satisfied (or a predecessor has satisfied) the requirements set forth in the Master Indenture for becoming a Restricted Affiliate and has not thereafter ceased to satisfy the requirements of clauses (1) and (2) above or satisfied the requirements set forth in the Master Indenture for ceasing to be a Restricted Affiliate.

“Services” means Inova Health System Services, a Virginia nonstock corporation and its legal successors.

“Short-Term Indebtedness” means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, incurred or assumed by any Member of the Combined Group, including:

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

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

(iii) installment purchase or conditional sale contracts having an original term of one year or less.

“SIFMA Municipal Swap Index” means the Securities Industry and Financial Markets Association Municipal Swap Index, produced by Municipal Market Data, or its successor, or if such index is not available, another index certified to the Master Trustee to be comparable by a firm of investment bankers or a financial advisory firm.

“Subordinated Debt” means Indebtedness the payment of which is specifically subordinated to the payment of principal and interest on Obligations.

“Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Total Operating Revenues” means, with respect to the Group, as to any period of time, total operating revenues less all deductions from revenues, as determined in accordance with generally accepted accounting principles consistently applied.

“Transfer” means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

General

Subject to the terms, limitations and conditions established in the Master Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Indenture or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created under the Master Indenture are not limited, except as limited by the provisions of the Master Indenture or of any Supplement. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation.

Each Obligation or series of Obligations shall be created by a different Supplement and shall be designated in such a manner as will differentiate such Obligation from any other Obligation.

Security

Any Obligation issued pursuant to the Master Indenture shall be a general obligation of the issuer of such Obligation.

Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except as may be otherwise provided in the Master Indenture) any of its Property.

Each Obligation shall be a joint and several obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Covenants

Each Member of the Obligated Group covenants to:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this paragraph shall be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by The Joint Commission or other applicable recognized accrediting body; provided, however, that it need not comply with such provision of the Master Indenture if and to the extent that its Governing Body shall have determined in good faith evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Indenture shall remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it agrees not to take any action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which, or fail to take any action which failure, in the

Opinion of Bond Counsel, would result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal income tax purposes.

Insurance

Each Member of the Obligated Group agrees to maintain, or cause to be maintained, the following types of insurance (including one or more self-insurance programs considered to be adequate) in such amounts as, in its judgment, are adequate to protect it and its Property and operations: (i) comprehensive general public liability insurance, including blanket contractual liability and automobile insurance including owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance covering such periods, (iii) professional liability or medical malpractice insurance in the minimum amount of \$1,000,000 per person and per occurrence and \$3,000,000 annual aggregate, (iv) workers' compensation insurance, and (v) boiler insurance.

Inova shall employ an Insurance Consultant to review the insurance requirements of the Members of the Combined Group from time to time (but not less frequently than biennially). If the Insurance Consultant makes recommendations for the increase of any coverage, the Obligated Group shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Corporation that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of Inova that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding anything in this paragraph to the contrary, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage, the report of the Insurance Consultant mentioned above shall state whether the anticipated

funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

Insurance and Condemnation Proceeds

Amounts that do not exceed 20% of the Net Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

Amounts that exceed 20% of the Net Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards shall be applied to repair or replace the Property to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; provided, however, that such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (B) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 30% of the Net Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in clause (i) above to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level.

Limitations on Creation of Liens

Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits with any Member of the Combined Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Combined Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Combined Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Member of the Combined Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) to the extent that it affects title to any Property, the Master Indenture; and (E) landlord's liens;

(v) Any Lien which is existing on the date of authentication and delivery of any Obligation Outstanding under the Master Indenture on its date of execution and delivery, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Combined Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(vi) Any Lien securing Non-Recourse Indebtedness permitted by paragraph (e) under the caption “Limitations on Indebtedness” below;

(vii) Any Lien on Property acquired by a Member of the Combined Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions set forth under the caption “Limitations on Indebtedness” below, and if an Officer’s Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the Combined Group, and (B) the Lien was not created for the purpose of enabling the Member of the Combined Group to avoid the limitations of the Master Indenture on creation of Liens on Property of the Combined Group;

(viii) So long as no Event of Default exists under the Master Indenture and subject to clause (xviii) below, any Lien on Property which is part of the Property, Plant and Equipment securing Long-Term Indebtedness in an aggregate amount not exceeding 15% of Total Operating Revenues;

(ix) The Agreement of Lease, between The Board of Supervisors of Fairfax County, Virginia, Inova Health Systems Foundation and Fairfax Hospital System, Inc., dated January 23, 1991, as amended or supplemented;

(x) Any Lien on inventory which does not exceed 25% of the Net Book Value thereof;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(xii) Any Lien securing all Obligations on a parity basis;

(xiii) Any Liens subordinate to the Lien described in clause (xii) above required by a statute under which a Related Bond is issued;

(xiv) Liens on moneys deposited by patients or others with any Member of the Combined Group as security for or as prepayment for the cost of patient care;

(xv) Liens on Property received by any Member of the Combined Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvi) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Member of the Combined Group;

(xvii) Rights of the United States of America under Title 42 United States Code Section 291;

(xviii) Any Lien on moveable equipment (as such term is defined under generally accepted accounting principles) securing Indebtedness incurred to purchase such moveable equipment, provided that the total of such Indebtedness does not exceed fifteen percent (15%) of Total Operating Revenues as shown on the Financial Statements of the prior Fiscal Year reported upon by independent certified public accountants; provided, however, that the total of all Indebtedness secured by any Lien permitted under this clause (xviii) and secured by any Lien on Property, Plant and Equipment permitted under clause (viii) above shall not exceed twenty percent (20%) of Total Operating Revenues as shown on the Financial Statements of the prior Fiscal Year as reported upon by independent certified public accountants; and

(xix) Any Lien on accounts receivable if such Lien is given or made (A) in connection with a sale, pledge, assignment or transfer permitted by the provisions of the last paragraph under the caption "Sale, Lease or Other Disposition of Assets" below or (B) to secure Short-Term Indebtedness.

Limitations on Indebtedness

Each Member of the Obligated Group will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of paragraphs (a) to (i), inclusive, below. Any Indebtedness may be incurred only in the manner and pursuant to the terms of the Master Indenture set forth in such paragraphs. Each Member of the Obligated Group will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that: (A) immediately after the incurrence of the proposed Long-Term Indebtedness the aggregate principal amount of all Long-Term Indebtedness does not exceed 67% of Capitalization; or (B) the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Financial Statements available, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.10; or

(ii) (1) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the period mentioned in clause (a)(i)(B) above, excluding the proposed Long-Term Indebtedness, is at least 1.10 and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.10 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each

of the two full Fiscal Years succeeding the date on which such capital improvements are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Combined Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Combined Group are based; provided, however, that compliance with the tests set forth in this clause (a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio set forth in this clause (a)(ii)(2) is equal to or greater than 1.50; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this paragraph to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) In addition to, and not in lieu of, Long-Term Indebtedness permitted to be incurred under paragraph (a) above, Long-Term Indebtedness may be incurred, provided that immediately after giving effect to any Long-Term Indebtedness incurred pursuant to this paragraph (b), the aggregate of Long-Term Indebtedness incurred under this paragraph (b) shall not exceed 25% of Total Operating Revenues as reflected in the most recent Financial Statements; provided, further, that the aggregate of the principal amount of Indebtedness Outstanding under this paragraph (b) and paragraph (d) below shall not at any time exceed 25% of Total Operating Revenues as reflected in the most recent Financial Statements.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness if, prior to the incurrence of such Long-Term Indebtedness, (i) if the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness, there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) if the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the Related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15%.

(d) (i) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed 25% of Total Operating Revenues as reflected in the Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Financial Statements are available; provided, however, that there shall be a period of at least 10

consecutive calendar days during each such period of twelve consecutive calendar months for which Financial Statements are available during which Short-Term Indebtedness shall not exceed 5% of Total Operating Revenues; provided, further, that the aggregate of the principal amount of Indebtedness Outstanding under this paragraph (d)(i) and paragraph (b) above shall not at any time exceed 25% of Total Operating Revenues as reflected in the Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Financial Statements are available. (ii) Short-Term Indebtedness may also be incurred if the tests set forth in paragraphs (a)(i)(B) or (a)(ii) above are met with respect to the incurrence of such Short-Term Indebtedness. For the purpose of calculating compliance with the tests set forth in paragraph (a)(i)(B) or (a)(ii) above, the Short-Term Indebtedness to be incurred pursuant to this paragraph (d)(ii) shall be treated as Long-Term Indebtedness. For purposes of this paragraph (d), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set forth in this paragraph (d), Short-Term Indebtedness shall not be taken into account except to the extent provided in paragraph (i) below.

(e) Non-Recourse Indebtedness may be incurred without limit.

(f) Completion Indebtedness may be incurred without limitation; provided, however, that prior to the incurrence of Completion Indebtedness, the Obligated Group Representative shall furnish to the Master Trustee: a certificate of an architect estimating the costs of completing the facilities for which Completion Indebtedness is to be incurred; an Officer's Certificate of the Chief Financial Officer of the Member of the Obligated Group for which Completion Indebtedness is to be incurred certifying that the amount of Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of the facilities in respect of which Completion Indebtedness is to be incurred; and a certificate from a Consultant to the effect that the Long-Term Indebtedness originally incurred to finance the costs of the construction of the facilities in respect of which Completion Indebtedness is to be incurred was estimated prior to the date of incurrence of the original Long-Term Indebtedness to be sufficient, together with other funds, if applicable, to complete the construction of such facilities, but due to certain factors enumerated in the certificate the costs of constructing such facilities exceeded the amount of the original Indebtedness plus other funds, if applicable.

(g) Subordinated Debt may be incurred without limit.

(h) Indebtedness under a Credit Facility (including a Guaranty of indebtedness under a Credit Facility) may be incurred without limit.

(i) Short-Term Indebtedness secured by accounts receivable may be incurred without limitation; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable

pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in paragraph (d) above.

Indebtedness incurred pursuant to any one of paragraphs (a)(i)(A), (a)(i)(B), (a)(ii) or (b) above may be reclassified as Indebtedness incurred pursuant to any other of such paragraphs if the tests set forth in the paragraph to which such Indebtedness is to be reclassified are met at the time of such reclassification. Indebtedness incurred pursuant to any one of paragraphs (d)(i) or (d)(ii) above may be reclassified as indebtedness incurred pursuant to the other of such clauses if the tests set forth in the clauses to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a “put” or “tender” provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Indebtedness solely by reason of such “put” or “tender” provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test described above.

Long-Term Debt Service Coverage Ratio

Each Member of the Obligated Group covenants to set rates and charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

If at any time the Long-Term Debt Service Coverage Ratio described in the previous paragraph, as derived from the most recent Financial Statements for the most recent Fiscal Year, is not met, Inova covenants to retain a Consultant within 30 days to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. Any Consultant so retained shall be required to submit such recommendations within 45 days after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. So long as a Consultant shall be retained and each Member of the Obligated Group shall follow such Consultant’s recommendations to the extent permitted by law, these provisions of the Master Indenture shall be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the revenues of the Obligated Group shall not be less than the amount required to pay when due the total operating expenses of the Obligated Group and to pay when due the debt service on all Indebtedness of the Obligated Group for such Fiscal Year. The Obligated Group

shall not be required to retain a Consultant to make recommendations pursuant to the provisions of the Master Indenture described in this paragraph more frequently than biennially.

If the report of the Consultant shall state that Governmental Restrictions have been imposed which make it impossible for the coverage requirement described in the first paragraph under this caption to be met, then such coverage requirement shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00 and thereafter, for so long as such Governmental Restrictions are in effect, a report of the Consultant stating that Governmental Restrictions which make it impossible for the coverage requirement described in the first paragraph under this caption to be met are still in effect shall be delivered to the Master Trustee biennially.

Sale, Lease or Other Disposition of Assets

Each Member of the Obligated Group agrees that it will not transfer Property in any Fiscal Year (or other 12-month period for which Financial Statements are available) except for Transfers of Property:

(i) To any Person (A) that the Obligated Group has ceased to operate pursuant to the provisions of the Master Indenture described in paragraph (b) under the caption "Covenants" above, and (B) the Net Book Value of which does not exceed 2% of the unrestricted fund balance (plus the excess of assets over liabilities, if applicable) of the Obligated Group, as shown on the Financial Statements for the most recent period of 12 full consecutive calendar months for which such Financial Statements are available.

(ii) To any Person if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative stating that such Property has or will within the next 24 months become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property; provided, however, that such Officer's Certificate shall not be required to be delivered with respect to the Transfer of any such Property having an aggregate Net Book Value of less than two percent (2%) of the unrestricted fund balance of the Obligated Group for the most recent period of twelve (12) full consecutive calendar months for which Financial Statements were reported on by independent certified public accountants.

(iii) To another Member of the Obligated Group (but not including any Restricted Affiliate) without limit.

(iv) To any Person provided there shall be delivered to the Master Trustee prior to such Transfer either: (A) an Officer's Certificate certifying the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Financial Statements have been reported upon by independent

certified public accountants and such Long-Term Debt Service Coverage Ratio is not less than 1.3 and not less than sixty-five percent (65%) of what it would have been were such Transfer not to take place; or (B) the report of a Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio, taking such Transfer into account, for each of the two (2) periods of twelve (12) full consecutive calendar months succeeding the date on which such Transfer is forecasted to occur, and the Long-Term Debt Service Coverage Ratio for each such period is not less than 1.3 and not less than sixty-five percent (65%) of what it would have been were such Transfer not to take place, accompanied by a statement of the relevant assumptions upon which such forecasts are based.

(v) To any Person provided that the Member of the Obligated Group proposing to make such Transfer shall receive, as consideration for such Transfer, cash, services or Property equal to the fair market value of the asset so transferred.

(vi) To any Person if the aggregate Net Book Value of the Property Transferred pursuant to the provisions of the Master Indenture described in this paragraph (vi) in the current Fiscal Year does not exceed 10% of the Net Book Value of all Property of the Obligated Group as shown in the Financial Statements for the most recent Fiscal Year.

Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group shall receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold.

Consolidation, Merger, Sale or Conveyance

Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to any Person that is not a Member of the Obligated Group unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation shall execute and deliver to the Master Trustee an appropriate instrument, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture and any Supplement thereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(iii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iv) There is delivered to the Master Trustee (A)(x) an Officer's Certificate of the Obligated Group Representative demonstrating that either of the conditions of the Master Indenture described in paragraph (a)(i) under the caption "Limitations on Indebtedness" above have been satisfied for the issuance of an additional one dollar (\$1.00) of Additional Indebtedness, assuming such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available, or (y) an Officer's Certificate of the Obligated Group Representative demonstrating that if such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would not have been reduced by more than 35%; provided, however, that in no event shall such Ratio be reduced to less than 1.20 or (z) a written report of a Consultant indicating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such merger, or consolidation or sale of assets is greater than 1.20 and (B) an Officer's Certificate of the Obligated Group Representative demonstrating that the unrestricted fund balance (or excess of assets over liabilities, as the case may be) of the Obligated Group after giving effect to said merger, consolidation or sale of assets is not less than 90% of the unrestricted fund balance (or excess of assets over liabilities, as the case may be) of the Obligated Group prior to such merger, consolidation or sale as reflected in the most recent Financial Statements; provided, however, that the requirements of the Master Indenture described in clause (B) need not be met if there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio, assuming such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available would have been greater than the Long-Term Debt Service Coverage Ratio for such period as reflected in the Financial Statements of the Obligated Group for such period.

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 were a Member of the Obligated Group. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such

successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same security position and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture without any such consolidation, merger, sale or conveyance having occurred.

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 under the Master Indenture as may be appropriate.

The Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case), as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered by the Master Indenture.

Filing of Financial Statements and Other Information

The Obligated Group will:

(a) Within 30 days after receipt of the audit report mentioned below but in no event later than one hundred fifty (150) days after the end of each fiscal reporting period for which the Audited Financial Statements are reported upon by independent certified public accountants, file with the Master Trustee and with each Holder who may have so requested, a copy of the Audited Financial Statements as of the end of such fiscal reporting period accompanied by the opinion of independent certified public accountants. Such Audited Financial Statements shall be prepared in accordance with generally accepted accounting principles and shall include such statements necessary for a fair presentation of unrestricted fund financial position, results of operations and changes in unrestricted fund balance and financial position as of the end of such fiscal reporting period.

(b) Within 30 days after receipt of the audit report mentioned above but in no event later than one hundred fifty (150) days after the end of each fiscal reporting period, file with the Master Trustee and with each Holder who may have so requested an Officer's Certificate and a report of independent certified public accountants stating the Long-Term Debt Service Coverage Ratio for such fiscal reporting period and stating whether, to the best knowledge of the signers, any Member of the Obligated Group 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) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) as the

Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee.

(d) Within 30 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

Parties Becoming Members of the Obligated Group

Persons and corporations which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by the Master Indenture may become Members of the Obligated Group, if, among other things:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group and thereby become subject to compliance with all provisions of the Master Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture, (ii) to adopt the same Fiscal Year as that of Inova, and (iii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Indenture will be paid in accordance with the terms thereof and of the Master Indenture when due.

(b) There shall be filed with the Master Trustee (i) an Officer's Certificate of the Obligated Group Representative demonstrating that either of the conditions described in paragraph (a)(i) under the caption "Limitations on Indebtedness" above have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, assuming such admission actually occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available, or (ii) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Financial Statements are available (A) would not have been reduced by more than 35% and would not have been reduced to less than 1.20 or (B) would be greater than in the absence of such Person becoming a Member of the Obligated Group; or (iii) the written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such admission is greater than 1.20; provided, however, that compliance with the tests set forth in clause (iii) may be evidenced by an Officer's Certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two periods of 12 consecutive calendar months succeeding the proposed date of such admission is greater than 2.00 and not reduced by more than 35% from what it would have been for the most recent period of 12 full consecutive calendar months for which Financial Statements are available if such admission had occurred at the beginning of such period.

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the holders thereof under the Code have not been paid to the holders thereof, there shall be filed with the Master Trustee, (i) an Opinion of Bond Counsel to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, to the effect that the consummation of such transaction would not require the registration of the Obligations under the Securities Act of 1933, as amended, or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) After giving effect to the admission of such Person as a Member of the Obligated Group, the combined unrestricted fund balance of such Person (or the excess of such Person's assets over its liabilities as the case may be) and the unrestricted fund balance (plus the excess of assets over liabilities, if applicable) of the Obligated Group is not less than 90% of the unrestricted fund balance (plus the excess of assets over liabilities, if applicable) of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person shall become a Member of the Obligated Group; provided, however, that the requirement of the Master Indenture described in this paragraph may be satisfied if there is delivered to the Master Trustee a certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio, assuming such addition to the Obligated Group had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available would have been greater than the Long-Term Debt Service Coverage Ratio for such period as reflected in Financial Statements of the Obligated Group for such period.

Withdrawal from the Obligated Group

No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative and unless, prior to the taking of such action, there is, among other things, delivered to the Master Trustee:

(i) If all amounts due on any Related Bonds which bear interest which is not includable in the gross income of the holders thereof under the Code have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the holders thereof under the Code; and

(ii) (A) An Officer's Certificate of the Obligated Group Representative demonstrating that either of the conditions described in paragraph (a)(i) under the caption "Limitations on Indebtedness" above have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, assuming such withdrawal to have occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available, or (B) a certificate of the Obligated

Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Financial Statements are available (x) would not, if such withdrawal had occurred at the beginning of such period, be reduced by more than 35%; provided, however, that in no event shall such ratio be reduced to less than 1.20 or (y) would be greater than in the absence of such withdrawal; or (C) a written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (C) above may be evidenced by an Officer's Certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent twelve month period for which Audited Financial Statements of the Obligated Group are available.

Upon the withdrawal of any Member from the Obligated Group, any guaranty by such Member pursuant to the provisions of the Master Indenture described under the caption "Parties Becoming Members of the Obligated Group" above shall be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease.

Covenants of the Combined Group

The Members of the Obligated Group agree that they will cause each Restricted Affiliate to comply with all of the covenants and perform all of the obligations set forth under the captions "Covenants", "Insurance", "Insurance and Condemnation Proceeds", "Limitations on Creation of Liens", "Limitations on Indebtedness", "Long-Term Debt Service Coverage Ratio", "Sale, Lease or Other Disposition of Assets", "Consolidation, Merger, Sale or Conveyance" and "Filing of Financial Statements and Other Information" above as if such Restricted Affiliate were a Member of the Obligated Group.

The Obligated Group agrees to cause the Restricted Affiliates to transfer funds or other assets to the Member of the Obligated Group that is its sole member, beneficiary or controlling person to the extent permitted by law for the purpose of allowing the Obligated Group to satisfy its debt service requirements applicable to any Obligations.

Conditions for Designation of Restricted Affiliates

Any Affiliate of a Member of the Obligated Group that has satisfied the definition of "Restricted Affiliate" will become a Restricted Affiliate upon delivery to the Master Trustee of, among other things, the following documents:

(a) An Officer's Certificate from the Obligated Group Representative to the effect that the Obligated Group Representative consents to such Person becoming a Restricted Affiliate.

(b) A written undertaking for the benefit of the Master Trustee duly authorized and executed by such Affiliate evidencing the agreement of such Affiliate to observe and perform the obligations that the Obligated Group has covenanted to cause Restricted Affiliates to observe and perform under the Master Indenture;

(c) An opinion of Counsel to the effect that the conditions contained in the Master Indenture relating to designation of a Restricted Affiliate have been satisfied and that (i) the instrument described in clause (b) above has been duly authorized, executed and delivered and (ii) the transfer of funds or assets by Restricted Affiliates to the Members of the Obligated Group, in the form of loans, advances, grants, gifts or other transfers as contemplated by the Master Indenture is permissible under the applicable laws of Virginia except in the case of a Restricted Affiliate which is a stock corporation, no such transfer may be made if, after giving it effect: (i) the Restricted Affiliate would not be able to pay its debts as they became due in the usual course of business; or (ii) the Restricted Affiliate's total assets would be less than its total liabilities;

(d) (i) An Officer's Certificate of the Obligated Group Representative to the effect that no Event of Default then exists, nor does there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default under the Master Indenture, and (ii) either (A) an Officer's Certificate of the Obligated Group Representative to the effect that if one dollar of Additional Indebtedness were incurred immediately following the designation of such Affiliate, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness set forth in paragraphs (a)(i)(B) or (a)(ii) under the caption "Limitations on Indebtedness" above, or (B) a written report of a Consultant demonstrating that by reason of such status, the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years following such designation as a Restricted Affiliate will be greater than the Long-Term Debt Service Coverage Ratio for such Fiscal Years had such designation of such Person as a Restricted Affiliate not occurred; and

(e) An Officer's Certificate of the Obligated Group Representative to the effect that such Person becoming a Restricted Affiliate will not cause the fund balance of the Combined Group to be less than 90% of the amount of such fund balance immediately prior to such Person becoming such a Restricted Affiliate.

Release of Restricted Affiliates

Any Person shall be released from its obligations and status as a Restricted Affiliate only upon compliance of the following conditions:

(a) The Master Trustee shall have received an (i) Officer's Certificate from the Obligated Group Representative consenting to the release of such Person from its status as a Restricted Affiliate and (ii) (A) An Officer's Certificate of the Obligated Group Representative

demonstrating that either of the conditions described in paragraph (a)(i) under the caption “Limitations on Indebtedness” above have been satisfied for the incurrence of an additional one dollar (\$1.00) of Additional Indebtedness, assuming such withdrawal to have occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Financial Statements are available, or (B) a certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Financial Statements are available (x) would not, if such withdrawal had occurred at the beginning of such period, be reduced by more than 35%; provided, however, that in no event shall such ratio be reduced to less than 1.20 or (y) would be greater than in the absence of such withdrawal; or (C) a written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of 12 full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (C) above may be evidenced by an Officer’s Certificate of the Obligated Group Representative in lieu of a Consultant’s report where the Long-Term Debt Service Coverage Ratio for each of the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent 12-month period for which Audited Financial Statements of the Obligated Group are available.

(b) The Master Trustee receives an Officer’s Certificate of the Person requesting such release stating that all conditions precedent provided for under the Master Indenture relating to the release of such Person as a Restricted Affiliate have been complied with and that, were such Person released as a Restricted Affiliate, no Event of Default would then exist, nor would there then exist any event which, with the passage of time or giving of notice, or both, would or might become an Event of Default.

Limited Obligors

Any Person shall become a Limited Obligor upon delivery to the Master Trustee of, among other things, the following:

(1) An Officer’s Certificate from the Obligated Group Representative to the effect that the Obligated Group Representative consents to such Person becoming a Limited Obligor;

(2) An Opinion of Counsel to the effect that a Pledged Note (i) has been duly authorized, executed and delivered by the Limited Obligor and (ii) constitutes the legal, valid and binding obligation of the Limited Obligor, and an Opinion of Counsel to the applicable Member of the Obligated Group to the effect that the Pledged Note has been validly assigned by the applicable Member of the Obligated Group to the Master Trustee; and

(3) The duly executed Pledged Note made by such Person.

Any Person shall be released from its obligations and status as a Limited Obligor only upon the condition that the Master Trustee shall have received an Officer’s Certificate from the

Obligated Group Representative certifying that (i) the related Guaranty has been paid or terminated, and (ii) immediately after the release of such Person, no Event of Default will then exist, nor would there then exist any event which, with the passage of time or the giving of notice, or both, would or might become an Event of Default.

Replacement Master Indenture

A Related Bond Trustee for Related Bonds shall, with the prior written consent of the bond insurer or credit facility provider, if any, for such Related Bonds, surrender any Obligation issued to secure such Related Bonds to the Master Trustee upon presentation to the Related Bond Trustee of the following:

(a) an original replacement note or similar obligation issued by the obligated group (the “Substitute Obligation”) under and pursuant to a master trust indenture (the “Replacement Master Indenture”) executed by the Members of the Obligated Group and certain other parties named therein (collectively, the “New Group”) and an independent corporate trustee which may be the Master Trustee or the Related Bond Trustee (the “New Trustee”) meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture, which Substitute Obligation has been duly authenticated by the New Trustee;

(b) the Replacement Master Indenture containing the agreement of each member of the New Group (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Indenture) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the Replacement Master Indenture at the times and in the amounts provided in each such note or obligation;

(c) an Opinion of Counsel addressed to the Related Bond Trustee and the Obligated Group Representative to the effect that: (i) the Replacement Master Indenture has been duly authorized, executed and delivered by each member of the New Group, the Substitute Obligation has been duly authorized, executed and delivered by the Obligated Group, and the Replacement Master Indenture and the Substitute Obligation are each a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors’ rights and application of general principles of equity; (ii) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Indenture have been complied with and satisfied; and (iii) registration of the Substitute Obligation under the Securities Act of 1933, as amended, is not required or, if such registration is required, that all applicable registration provisions of such act have been complied with;

(d) an Officer’s Certificate certifying that (i) the New Group could, after giving effect to the Substitute Obligation, meet the conditions of the Master Indenture for the incurrence of one dollar (\$1.00) of additional Long-Term Indebtedness described in paragraph (a) under the caption “Limitations on Indebtedness” above, as demonstrated in such certificate, (ii) the

unrestricted fund balance of the New Group is not less than 90% of the unrestricted fund balance of the Obligated Group, and (iii) the New Group would not be in default under the provisions of the Master Indenture described under the caption “Limitations on Creation of Liens” above;

(e) an Opinion of Bond Counsel that the surrender of the Obligation and the acceptance by the Bond Trustee of the Substitute Obligation will not adversely affect the validity of the Related Bonds or any exemption for the purposes of federal income taxation to which interest on the Related Bonds would otherwise be entitled;

(f) an original executed counterpart of the Replacement Master Indenture;

(g) evidence that (i)(A) written notice of such substitution, together with a copy of such Replacement Master Indenture, has been given by the New Group to each rating agency then maintaining a rating on any Obligation or Related Bond and (B) the then current rating on the Related Bonds shall not be withdrawn or reduced by any such rating agency as a result of such substitution, evidenced in a written correspondence from such rating agency or (ii) the following sections and provisions of the Master Indenture are incorporated in the Replacement Master Indenture in substantially the form set forth in the Master Indenture: (A) Sections 3.01, 3.02(a), 3.05(b)(xii), 3.05(b)(xviii), 3.06(a)(i)(A), 3.08(a)(iv), 3.08(a)(v), 3.08(a)(vi), 3.09, 3.11, 3.12, 3.13, 3.14, 3.15, 4.01 through 4.12, inclusive, 5.04, 6.01(h), 6.02(a), 7.01 and 8.02 of the Master Indenture; (B) the definition of any term used in the calculation of the Long-Term Debt Service Coverage Ratio, Capitalization or the amount of Long-Term Indebtedness or Short-Term Indebtedness, or the definitions of Affiliate, Audited Financial Statements, Financial Statements, Net Book Value, Non-Recourse Indebtedness, Operating Assets, Property, Plant and Equipment, Restricted Affiliate or Total Operating Revenues and (C) any provision of the Master Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio; provided that such ratio may be reduced, but in no event shall such ratio be reduced to less than 1.10 (or less than 1.00 if Governmental Restrictions make it impossible for a Long-Term Debt Service Coverage Ratio of at least 1.10 to be maintained or demonstrated); and

(h) such other opinions and certificates as the Related Bond Trustee or the bond insurer or credit facility provider, if any, may reasonably require, together with such reasonable indemnities as the Related Bond Trustee or the bond insurer or credit facility provider, if any, may request.

Events of Default

Event of Default shall mean any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Indenture when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture or of any Supplement;

(b) Any Member of the Combined Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group by the Master Trustee, or to the Members of the Obligated Group and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding; provided, however, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture or upon a Related Bond;

(d) (i) Any Member of the Combined Group shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Indenture), which Indebtedness is in an aggregate principal amount greater than one percent (1%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or (ii) there shall occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than one percent (1%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall not constitute an Event of Default if within 30 days written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Combined Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Combined Group in good faith shall commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Combined Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Combined Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; and

(f) The institution by any Member of the Combined Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition

or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Combined Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

Acceleration

Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may and, upon the written request of (i) the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding or (ii) any Person exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, the Master Trustee shall, by notice to the Members of the Obligated Group, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to said Supplement, the Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplement. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied or waived, then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to: (i) enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations; (ii) suit upon all or any part of the Obligations; (iii) civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders; (iv) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders; (v) enforcement of rights as a secured party under the Uniform Commercial Code of the Commonwealth of Virginia; and (vi) enforcement of any other right of the Holders conferred by law or by the Master Indenture.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation thereof, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions thereof and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Holders not making such request.

Application of Moneys after Default

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 shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable: First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full 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 any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of paragraph (b) above in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) above.

Whenever moneys are to be applied by the Master Trustee pursuant to such provisions of the Master Indenture, 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.

Holders' Control of Proceedings

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding 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 is not in conflict with any applicable law or the provisions of the Master Indenture, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, and, in the sole judgment of the Master Trustee, and provided further that nothing in the Master Indenture described under this caption shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by the Holders.

Waiver of Event of Default

No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power

and remedy given by the Master Indenture to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

The Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in the last paragraph under the caption "Acceleration" above, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Appointment of Receiver

Upon the occurrence of any Event of Default unless the same shall have been waived as provided in the Master Indenture, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer.

Notice of Default

The Master Trustee shall, within 10 days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in clauses (e) and (f) under the caption "Events of Default" above, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Supplements Not Requiring Consent of Holders

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Indenture.
- (b) To correct or supplement any provision in the Master Indenture which 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 which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Indenture described under the caption “Supplements Requiring Consent of Holders” below.
- (d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of Indebtedness as permitted under the Master Indenture.
- (f) To obligate a successor to any Member of the Obligated Group as described under the caption “Parties Becoming Members of the Obligated Group” above.
- (g) To comply with the provisions of any federal or state securities law.
- (h) So long as no Event of Default has occurred and is continuing under the Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under the Master Indenture has occurred and is continuing, to make any change to the provisions of the Master Indenture (except as set forth below) if the following conditions are met:
 - (i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A)(1) a Consultant’s report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer’s Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 consecutive calendar months preceding the date of delivery of the report for which there are Financial Statements available was at least 1.75; or (B) evidence satisfactory to the Master Trustee to the effect that the Obligated Group has delivered to each Related Bond Trustee for each outstanding Related Bond, each trustee for any outstanding Obligation which is not pledged to secure Related Bonds and each holder of an outstanding Obligation which is not pledged to secure Related Bonds and

with respect to which there is no trustee (in each case which Related Bond or Obligation is not already entitled to the benefit of credit enhancement of the types hereinafter described), a surety bond insurance policy, letter of credit or other form of credit enhancement from a financial institution generally regarded as responsible (in each case which is irrevocable and will remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains outstanding and provides for payment in full of principal and interest on such Related Bond or Obligation when due) and with evidence from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change;

(ii) if any series of Obligations or Related Bonds are rated based on credit enhancement of such Obligations or Related Bonds (whether in the form of a letter of credit, surety bond or otherwise) and not on the underlying credit of the Combined Group, the issuer of such credit enhancement shall consent in writing to such amendment of modification; and

(iii) with respect to each outstanding Related Bond, 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 the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled;

provided, however, that no amendment shall be made pursuant to the provisions of the Master Indenture described in this clause (h) which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of the Master Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event shall such ratio be reduced to less than 1.10 (or less than 1.00 if Governmental Restrictions make it impossible for a Long-Term Debt Service Coverage Ratio of at least 1.10 to be maintained or demonstrated), (2) the definition of any term used in the calculation of the Long-Term Debt Service Coverage Ratio, Capitalization or the amount of Long-Term Indebtedness or Short-Term Indebtedness, or the definitions of Affiliate, Audited Financial Statements, Financial Statements, Net Book Value, Non-Recourse Indebtedness, Operating Assets, Property, Plant and Equipment, Restricted Affiliate or Total Operating Revenues, or (3) Sections 3.01, 3.02(a), 3.05(b)(xii), 3.05(b)(xviii), 3.06(a)(i)(A), 3.08(a)(iv), 3.08(a)(v), 3.08(a)(vi), 3.09, 3.11, 3.12, 3.13, 3.14, 3.15, 4.01 through 4.12, inclusive, 5.04, 6.01(h), 6.02(a), 7.01 or 8.02 of the Master Indenture.

Supplements Requiring Consent of Holders

Other than Supplements referred to under the caption “Supplements Not Requiring Consent of Holders” above and subject to the terms and provisions and limitations contained in the Master Indenture and not otherwise, the Holders of not less than 51% in aggregate principal

amount of Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve such Supplements as shall be deemed necessary and desirable 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; provided, however, nothing shall permit or be construed as permitting a Supplement which would: (i) effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation; (ii) permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or (iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

Satisfaction and Discharge of Indenture

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2008A, SERIES 2008B AND SERIES 2008C TRUST AGREEMENTS

The Series 2008A Trust Agreement, the Series 2008B Trust Agreement and the Series 2008C Trust Agreement securing the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, respectively, are substantially similar in form and content. The following statements are brief summaries of certain provisions of the Series 2008A Trust Agreement, the Series 2008B Trust Agreement and the Series 2008C Trust Agreement and are in all respects subject to and qualified in their entirety by reference to the Series 2008A Trust Agreement, the Series 2008B Trust Agreement and the Series 2008C Trust Agreement, respectively.

Definitions of Certain Terms

“Act” means the Industrial Development and Revenue Bond Act, Chapter 49, Title 15.2, Code of Virginia of 1950, as amended, or any successor statute.

“Agreement” means the Series 2008A Loan Agreement, the Series 2008B Loan Agreement or the Series 2008C Loan Agreement, as the case may be.

“Alexandria Health Services” means Inova Alexandria Health Services Corporation, a Virginia nonstock corporation, and its legal successors.

“Alexandria Hospital” means Inova Alexandria Hospital, a Virginia nonstock corporation, and its legal successors.

“Alternate Liquidity Facility” means (i) any letter of credit, line of credit, surety bond, standby bond purchase agreement, insurance policy or other similar liquidity facility the obligor thereunder which shall be a Bank or (ii) any agreement of an Inova Liquidity Provider other than the applicable Liquidity Facility Agreement, pursuant to which the Bank or the Inova Liquidity Provider, as the case may be, shall be obligated to provide to the Tender Agent funds sufficient for the purpose of paying the purchase price of all Bonds tendered for purchase but not otherwise remarketed as provided in each Trust Agreement.

“ARS” means, on any date, the Bonds of a Subseries when bearing interest as auction rate securities as provided in each of the Trust Agreements.

“Authority” means the Industrial Development Authority of Fairfax County, Virginia, a political subdivision of the Commonwealth of Virginia, and any successor thereto.

“Authority Representative” means each of the persons at the time designated to act on behalf of the Authority in a written certificate furnished to the applicable Bond Trustee and the Borrower, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Authority by the Chairman of the Authority.

“Authorized Group Representative” means each of the persons at the time designated to act on behalf of the Borrower in a written certificate furnished to the Authority and the applicable Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Borrower by the President or Chief Financial Officer of Inova.

“Authorized Denominations” means (a) with respect to Bonds which are subject to a Long-Term Interest Rate Period, \$5,000 or any integral multiple thereof, (b) with respect to Bonds which are ARS, “Authorized Denominations” as defined in Exhibit B to the Trust Agreements, and (c) with respect to Bonds which are not described in the preceding clause (a) or clause (b), \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

“Bank” means any commercial bank, savings and loan association, insurance company or other financial institution in its capacity as the obligor under an Alternate Liquidity Facility.

“Bankruptcy Affiliate” means an “affiliate” as defined in the United States Bankruptcy Code.

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

“Bond Counsel” means any firm of nationally recognized municipal bond attorneys selected by Inova and acceptable to the Authority and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

“Bond Fund” means, with respect to the Series 2008A Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008A Bond Fund created and so designated by the provisions of the Series 2008A Trust Agreement and consisting of the Interest Account and the Sinking Fund Account, with respect to the Series 2008B Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008B Bond Fund created and so designated by the provisions of the Series 2008B Trust Agreement and consisting of the Interest Account and the Sinking Fund Account, and, with respect to the Series 2008C Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008C Bond Fund created and so designated by the provisions of the Series 2008C Trust Agreement and consisting of the Interest Account and the Sinking Fund Account.

“Bond Interest Term” means, with respect to any Bond, each period established in accordance with the provisions of the applicable Trust Agreement during which such Bond bears interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means, with respect to each Bond, a non-variable interest rate on such Bond established periodically in accordance with the provisions of the applicable Trust Agreement.

“Bond Register” means the registration books of the Authority kept by the applicable Bond Trustee to evidence the registration and transfer of Bonds.

“Bond Registrar” means the applicable Bond Trustee, as keeper of the Bond Register.

“Bond Trustee” means the bond trustee at the time serving as such under each Trust Agreement whether the original or a successor trustee.

“Bond Year” means, with respect to the Series 2008A Bonds and the Series 2008B Bonds, the period commencing on May 15 of any year and ending on May 14 of the following year, and, with respect to the Series 2008C Bonds, the period commencing on April 15 of any year and ending on April 14 of the following year.

“Bonds” means the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be.

“Borrower” means, with respect to the Series 2008A Bonds, the Corporation and Alexandria Hospital, with respect to the Series 2008B Bonds, Inova, Loudoun Healthcare and Loudoun Hospital, and, with respect to the Series 2008C Bonds, the Corporation.

“Borrower Bonds” means Bonds held by the applicable Tender Agent for and on behalf of the Borrower or any nominee for (or any Person who owns such Bonds for the sole benefit of) the Borrower pursuant to the provisions of the applicable Trust Agreement and Tender Agent Agreement.

“Business Day” means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the Commonwealth of Virginia, the State of New York or the state in which the office of the Liquidity Facility Provider at which a draw on, or a demand for funds under, the Liquidity Facility may be made is located are authorized by law to close or (b) a day on which the New York Stock Exchange is closed.

“Closing” or “Closing Date” means the date on which the Trust Agreements become legally effective, the same being the date on which the Series 2008A Bonds, Series 2008B Bonds and Series 2008C Bonds are delivered against payment therefor.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder.

“Conversion” means a conversion of the Bonds of a Subseries from one Interest Rate Period to another Interest Rate Period (including the establishment of a new interest period within the Long-Term Interest Rate Period).

“Conversion Date” means the effective date of a Conversion of the Bonds of a Subseries.

“Corporation” means Inova Health Care Services, a Virginia nonstock corporation, and its legal successors.

“County” means Fairfax County, Virginia, a political subdivision of the State, and the legal successor or successors thereof.

“Daily Interest Rate” means a variable interest rate for the Bonds established in accordance with the provisions of the applicable Trust Agreement.

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the Bonds.

“Defeasance Obligations” means (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, but excluding proprietary zero coupon securities representing interest or principal payments on U.S. Treasury securities such as CATs, TIGRs, ZEBRAs, LIONs, etc., and (iii) Defeased Municipal Obligations.

“Defeased Municipal Obligations” means noncallable obligations of state or local government municipal bond issuers which are rated in the highest Rating Category by S&P and Moody’s, respectively, provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of (i) noncallable, nonprepayable Government Obligations or (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, but excluding proprietary zero coupon securities representing interest or principal payments on U.S. Treasury securities such as CATs, TIGRs, ZEBRAs, LIONs, etc., the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, shall provide sufficient money to pay the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

“Depository” means one or more banks or trust companies authorized under the laws of the United States of America or the State to engage in the banking or trust business within the State and designated by the Authority, with the approval of the Authorized Group Representative, as a depository of money under the provisions of the applicable Trust Agreement.

“Designated Corporate Trust Office” means the corporate trust office of the Bond Trustee or the Tender Agent, as applicable, designated by such party in a writing delivered to the Authority, the Borrower, the Auction Agent, if any, the Broker-Dealers, if any, the Remarketing Agents, if any, and the Liquidity Facility Provider, if any. Initially, the Designated Corporate Trust Office of the Bond Trustee or the Tender Agent will mean the office of the Bond Trustee

or the Tender Agent, as the case may be, located at 1021 East Cary Street, Richmond, Virginia 23219.

“DTC” means The Depository Trust Company, New York, New York.

“Expiration Date” means the termination date of the Liquidity Facility, as extended from time to time.

“Favorable Opinion of Bond Counsel” means a written opinion of Bond Counsel, addressed to the Authority, the Borrower and the applicable Bond Trustee, to the effect that the action proposed to be taken is authorized or permitted by the laws of the State and the applicable Trust Agreement and will not adversely affect any exclusion from gross income for federal income tax purposes, or any exemption from State income taxes, of interest on the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be.

“Fiscal Year” means the period commencing on the first day of January of any year and ending on the last day of December of such year, unless the applicable Bond Trustee is notified in writing by the Authorized Group Representative, on behalf of the Borrower, of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the Authorized Group Representative by notice to the applicable Bond Trustee, the Authority, the Liquidity Facility Provider, if any, the Remarketing Agents, if any, the Tender Agent, if any, the Broker-Dealers, if any, and the Auction Agent, if any.

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

“Holder” or “Bondholder” means a person in whose name a Bond is registered in the Bond Register.

“Inova” means Inova Health System Foundation, a Virginia nonstock corporation, which is the sole member of the Corporation, Services and Loudoun Healthcare, and its legal successors.

“Inova Liquidity Provider” means, with respect to the Series 2008A Bonds, Inova, the Borrower or any other Member of the Obligated Group, or any combination thereof, with respect to the Series 2008B Bonds, Inova, the Borrower or any other Member of the Obligated Group, or any combination thereof, and, with respect to the Series 2008C Bonds, Inova, the Borrower or any other Member of the Obligated Group, or any combination thereof.

“Interest Accrual Date”, with respect to the Bonds other than ARS, means:

- (a) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period;
- (b) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month;
- (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long Term Interest Rate Period, other than the last such Interest Payment Date; and
- (d) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

“Interest Payment Date” means:

- (a) with respect to the Bonds other than ARS,
 - (i) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day;
 - (ii) for any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month;
 - (iii) for any Long Term Interest Rate Period, (A) with respect to the Series 2008A Bonds and Series 2008B Bonds, each May 15 and November 15, commencing on May 15, 2008, or if any May 15 or November 15 is not a Business Day, the next succeeding Business Day; and (B) with respect to the Series 2008C Bonds, each April 15 and October 15, commencing on October 15, 2008, and if any April 15 or October 15 is not a Business Day, the next succeeding Business Day;
 - (iv) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term;
 - (v) for each Interest Rate Period, the day next succeeding the last day thereof; and
 - (vi) for Liquidity Facility Provider Bonds, as set forth in the Liquidity Facility; and
- (b) with respect to Bonds which are ARS, each ARS Interest Payment Date.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Short Term Interest Rate Period, Long Term Interest Rate Period or ARS Rate Period.

“Investment Obligations” means Government Obligations and, to the extent from time to time permitted by law, (A) trust receipts evidencing a direct ownership interest in Government Obligations, (B) the obligations of (i) Federal National Mortgage Association, (ii) Federal Home Loan Banks, (iii) Federal Financing Bank, (iv) Federal Home Loan Mortgage Corporation, (v) Governmental National Mortgage Association, (vi) Federal Housing Administration, (vii) Farmers Home Administration and (viii) any other agency or instrumentality of the United States of America, (C) certificates of deposit or time deposits of, or other interest bearing accounts maintained by, any bank, any branch of any bank, trust company or national banking association (including the Bond Trustee and its affiliates) or any federally chartered savings and loan association; provided, however, that such certificates of deposit or time deposits or other interest bearing accounts shall be fully secured, to the extent not insured by the Federal Deposit Insurance Corporation, by Government Obligations or by obligations described in clauses (i) to (viii), inclusive, of (B) above, (D) evidences of ownership of a proportionate interest in specified direct obligations of, or specified obligations the timely payment of the principal of and the interest on which are unconditionally and fully guaranteed by, the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, but excluding proprietary zero coupon securities representing interest or principal payments on U.S. Treasury securities such as CATs, TIGRs, ZEBRAS, LIONs, etc., (E) Defeased Municipal Obligations, (F) municipal debt obligations, including, but not limited to, conduit and other revenue bonds which are rated in one of the three highest Rating Categories by both S&P and Moody’s, (G) shares of money market mutual funds or commingled trust funds invested in Government Obligations or other obligations constituting Investment Obligations, (H) any guaranteed investment contract with a counterparty rated in one of the three highest Rating Categories by both S&P and Moody’s, (I) commercial paper rated at least P-1 by Moody’s and at least A-1 by S&P, (J) debt obligations of domestic corporations or trusts rated in one of the three highest Rating Categories by both Moody’s and S&P, (K) bankers acceptances of any bank which bank or its parent holding company has debt obligations rated in one of the three highest Rating Categories by both Moody’s and S&P, and (L) any repurchase agreement with a bank or trust company (including the Bond Trustee and its affiliates) or a recognized securities dealer that is a primary dealer on the Federal Reserve dealer list with capital, surplus and undivided profits in excess of Ten Million Dollars (\$10,000,000) for Government Obligations or obligations described in clauses (i) to (viii), inclusive, of (B) above in which the Bond Trustee or its agent shall be given a first security interest and on which no third party shall have a lien and having a fair market value at all times equal to at least one hundred and two percent (102%) of the amount of the repurchase obligation of the bank, trust company or recognized securities dealer; provided, however, that such obligations purchased must be transferred to the Bond Trustee or a third party agent by physical delivery or by an entry made on the records of the issuer of such obligations, in either case, the entity should receive confirmation from the third party that those securities are being held in a safe-keeping account in the name of the entity and such obligations are required to be valued at least as frequently as weekly. (The trust or safe-keeping departments of broker-dealers or financial institutions selling investments or pledging collateral or underlying securities, or their custodial agents, are not considered independent third parties for purposes of this statement.) Any investment in a repurchase agreement shall be considered to mature on the date the bank, trust company or primary securities dealer providing the repurchase agreement is

obligated to repurchase the Investment Obligations. Any investment in obligations described above may be made in the form of an entry made on the records of the issuer of the particular obligation.

“Liquidity Facility” means the Liquidity Facility Agreement and any Alternate Liquidity Facility.

“Liquidity Facility Agreement” means, the Liquidity Agreement, each dated as of April 1, 2008, and each by and between Inova and the Tender Agent, and any agreement amendatory thereof or supplemental thereto, relating to each Subseries of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds.

“Liquidity Facility Provider” means (i) the Bank, when a Bank provides a Liquidity Facility, or (ii) the Inova Liquidity Provider, when an Inova Liquidity Provider provides a Liquidity Facility. If the Liquidity Facility is provided by more than one entity, the term “Liquidity Facility Provider” shall be modified as necessary.

“Liquidity Facility Provider Bond” means any Bond purchased with funds provided pursuant to the Liquidity Facility until remarketed with funds provided pursuant to the Remarketing Agreement, but excluding any Bond no longer considered to be a Liquidity Facility Provider Bond pursuant to the terms of such Liquidity Facility.

“Loan” means the aggregate amount of the moneys loaned to the Borrower pursuant to the Series 2008A Loan Agreement, the Series 2008B Loan Agreement and the Series 2008C Loan Agreement, respectively, and will be equal to the aggregate principal amount of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, respectively, issued by the Authority.

“Loan Repayments” means those payments so designated by and set forth in the applicable Agreement.

“Long-Term Interest Rate” means a term, non-variable interest rate established in accordance with the provisions of the applicable Trust Agreement.

“Long-Term Interest Rate Period” means each period during which a Long Term Interest Rate is in effect.

“Loudoun Healthcare” means Loudoun Healthcare, Inc., a Virginia nonstock corporation, and its legal successors.

“Loudoun Hospital” means Loudoun Hospital Center, a Virginia nonstock corporation, and its legal successors.

“Mandatory Standby Tender” means the mandatory tender of Bonds upon receipt by the applicable Bond Trustee of written notice from the Liquidity Facility Provider that an event with respect to the Liquidity Facility has occurred which requires or gives the Liquidity Facility Provider the option to terminate such Liquidity Facility upon notice. Mandatory Standby Tender

shall not include circumstances where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

“Master Indenture” means the Amended and Restated Master Trust Indenture, dated as of April 1, 2008 by and among the Corporation, Inova, Services, Alexandria Hospital, Alexandria Health Services, Loudoun Healthcare, Loudoun Hospital and U.S. Bank National Association, as master trustee, including any amendments or supplements thereto.

“Master Trustee” means the Master Trustee under the Master Indenture.

“Maturity Date” shall have the meaning set forth in each Bond.

“Maximum Bond Interest Rate” means (a) with respect to Bonds other than ARS, the lesser of 12% per annum and the Maximum Lawful Rate and (b) with respect to ARS, “Maximum Rate” as defined in the Trust Agreements.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Maximum Liquidity Facility Bond Interest Rate” means the lesser of (a) the rate of 25% per annum and (b) the Maximum Lawful Rate.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the Authorized Group Representative by notice to the applicable Bond Trustee, the Authority, the Liquidity Facility Provider, if any, the Remarketing Agents, if any, the Tender Agent, if any, the Broker-Dealers, if any, and the Auction Agent, if any.

“Obligation No. 42” means the Obligation so designated and issued under the Master Indenture and delivered to the Authority pursuant to the Series 2008A Loan Agreement.

“Obligation No. 43” means the Obligation so designated and issued under the Master Indenture and delivered to the Authority pursuant to the Series 2008B Loan Agreement.

“Obligation No. 44” means the Obligation so designated and issued under the Master Indenture and delivered to the Authority pursuant to the Series 2008C Loan Agreement.

“Obligors” means, with respect to each Liquidity Facility Agreement for the Series 2008A Bonds, Inova, the Corporation and Alexandria Hospital, with respect to each Liquidity Facility Agreement for the Series 2008B Bonds, Inova, Loudoun Healthcare and Loudoun Hospital, and, with respect to each Liquidity Facility Agreement for the Series 2008C Bonds, Inova and the Corporation.

“Opinion of Counsel” means an opinion in writing signed by an attorney or firm of attorneys who may be counsel for the Authority or the Obligated Group or other counsel.

“Outstanding Bonds” or “Bonds outstanding” means all Bonds which have been duly authenticated and delivered by the applicable Bond Trustee under the applicable Trust Agreement, except:

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

(b) Bonds for the payment of which money, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such Bonds are to be paid or redeemed, the principal amount of or the Redemption Price of, and the interest accruing to such date on, the Bonds to be paid or redeemed, has been deposited with the applicable Bond Trustee in trust for the Holders of such Bonds; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due and without reinvestment, will be sufficient to pay on such date the Redemption Price of, and the interest accruing on, such Bonds to such date;

(c) Bonds in exchange for or in lieu of which other Bonds have been issued;

(d) Bonds deemed to have been paid in accordance with the applicable Trust Agreement;

(e) any Undelivered Bond; and

(f) for purposes of any direction, consent or waiver under the applicable Trust Agreement, Bonds deemed not to be outstanding pursuant to such Trust Agreement.

“Participant” means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

“Paying Agent” means the bank or banks, if any, designated pursuant to the applicable Trust Agreement to receive and disburse the principal of and interest on Bonds.

“Payment Date” means each Interest Payment Date or any other date on which any principal of, premium, if any, or interest on any Bond is due and payable for any reason, including without limitation upon any redemption of Bonds.

“Person” means an individual, corporation, limited liability company, joint stock company, firm, association, partnership, joint venture, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Purchase Fund” means, with respect to the Series 2008A Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008A Purchase Fund created and so designated by the Series 2008A Trust Agreement and consisting of the Remarketing Proceeds Account, the

Liquidity Facility Proceeds Account and the Borrower Purchase Account, with respect to the Series 2008B Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008B Purchase Fund created and so designated by the Series 2008B Trust Agreement and consisting of the Remarketing Proceeds Account, the Liquidity Facility Proceeds Account and the Borrower Purchase Account, and, with respect to the Series 2008C Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008C Purchase Fund created and so designated by the Series 2008C Trust Agreement and consisting of the Remarketing Proceeds Account, the Liquidity Facility Proceeds Account and the Borrower Purchase Account.

“Rating Agency” means, as of any date, each of Moody’s, if the Bonds are then rated by Moody’s, Fitch, if the Bonds are then rated by Fitch, and S&P, if the Bonds are then rated by S&P.

“Rating Category” means a generic securities rating category, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

“Record Date” means (a) with respect to Bonds other than ARS, (i) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (ii) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (iii) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period, the fifteenth day immediately preceding that Interest Payment Date or, in the event that an Interest Payment Date shall occur less than 15 days after the first day of a Long-Term Interest Rate Period, that first day and (b) with respect to any Bonds which are ARS, “Record Date” as defined in the Trust Agreements.

“Redemption Fund” means, with respect to the Series 2008A Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008A Redemption Fund created and so designated by the Series 2008A Trust Agreement, with respect to the Series 2008B Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008B Redemption Fund created and so designated by the Series 2008B Trust Agreement, and, with respect to the Series 2008C Bonds, the Industrial Development Authority of Fairfax County, Virginia Health Care Revenue Refunding Bonds (Inova Health System Project) Series 2008C Redemption Fund created and so designated by the Series 2008C Trust Agreement.

“Redemption Price” means, with respect to Bonds or a portion thereof, the principal amount of such Bonds or portion thereof plus the applicable redemption premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms and the terms of the applicable Trust Agreement.

“Remarketing Agent” means the placement or remarketing agent or agents at the time serving as such under the applicable Remarketing Agreement.

“Remarketing Agreement” or “Remarketing Agreements” means the Remarketing Agreement or the Remarketing Agreements entered into by the Borrower and the Remarketing Agents relating to the rights, duties and obligations of the Remarketing Agents, as from time to time amended and supplemented, or if any such remarketing agreement shall be terminated, then such other agreement which may from time to time be entered into with any Remarketing Agent with respect to the remarketing or placement of the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be.

“Request” means a request by the Tender Agent under a Liquidity Facility for the payment of the Tender Price of Bonds in accordance with the terms of the applicable Trust Agreement.

“Required Payments under the Agreement” means the payments so designated by and set forth in the applicable Agreement.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority with the approval of the Authorized Group Representative by notice to the applicable Bond Trustee, the Authority, the Liquidity Facility Provider, if any, the Remarketing Agents, if any, the Tender Agent, if any, the Broker-Dealers, if any, and the Auction Agent, if any.

“Securities Act” means the Securities Act of 1933, as amended, and any successor thereto.

“Securities Depository” means DTC or other recognized securities depository selected by the Authority, which maintains a book-entry system in respect of the Bonds and agrees to follow the procedures required to be followed hereunder by a Securities Depository, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

“Securities Depository Nominee” means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the Bond Register the Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended, and any successor thereto.

“Series 2008A Loan Agreement” means the Loan Agreement, dated as of April 1, 2008, by and among the Authority, the Corporation and Alexandria Hospital, relating to the Series 2008A Bonds.

“Series 2008A Trust Agreement” means the Trust Agreement, dated as of April 1, 2008, by and between the Authority and the Bond Trustee, securing the Series 2008A Bonds.

“Series 2008B Loan Agreement” means the Loan Agreement, dated as of April 1, 2008, by and among the Authority, Inova, Loudoun Healthcare and Loudoun Hospital, relating to the Series 2008B Bonds.

“Series 2008B Trust Agreement” means the Trust Agreement, dated as of April 1, 2008, by and between the Authority and the Bond Trustee, securing the Series 2008B Bonds.

“Series 2008C Loan Agreement” means the Loan Agreement, dated as of April 1, 2008, by and between the Authority and the Corporation, relating to the Series 2008C Bonds.

“Series 2008C Trust Agreement” means the Trust Agreement, dated as of April 1, 2008, by and between the Authority and the Bond Trustee, securing the Series 2008C Bonds.

“Services” means Inova Health System Services, a Virginia nonstock corporation, and its legal successors.

“Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms, during which the Bonds bear interest at one or more Bond Interest Term Rates.

“SIFMA Index” means 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 and Financial Markets Association (formerly the Bond Market Association) (“SIFMA”) or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Remarketing Agent and effective from such date.

“Sinking Fund Requirement” means, with respect to the Series 2008A Bonds and the Series 2008B Bonds for any Bond Year, the principal amount fixed or computed for the retirement of such Bonds by purchase or redemption on May 15 of the following Bond Year, and, with respect to the Series 2008C Bonds for any Bond Year, the principal amount fixed or computed for the retirement of such Bonds by purchase or redemption on April 15 of the following Bond Year.

The aggregate amount of such Sinking Fund Requirements for the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, together with the amount due upon the final maturity of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, shall in the aggregate be equal to the aggregate principal amount of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, respectively. Any principal amount of Series 2008A Bonds, the Series 2008B Bonds or Series 2008C Bonds retired by operation of the Sinking Fund Account by purchase in excess of the total amount of the Sinking Fund

Requirement for such Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds to and including such May 15 or April 15, as the case may be, shall be credited against and reduce the future Sinking Fund Requirements for the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be, in such manner as shall be specified in an Officer's Certificate of the Authorized Group Representative filed with the applicable Bond Trustee.

"State" means the Commonwealth of Virginia.

"Subseries" means, with respect to the Series 2008A Bonds, the Subseries 2008A-1 Bonds or Subseries 2008A-2 Bonds, as the case may be, with respect to the Series 2008B Bonds, the Subseries 2008B-1 Bonds or Subseries 2008B-2 Bonds, as the case may be, and, with respect to the Series 2008C Bonds, the Subseries 2008C-1 Bonds, Subseries 2008C-2 Bonds, Subseries 2008C-3 Bonds or Subseries 2008C-4 Bonds, as the case may be.

"Subseries 2008A-1 Bonds" means \$_____ of Series 2008A Bonds, and any Series 2008A Bonds issued in replacement thereof.

"Subseries 2008A-2 Bonds" means \$_____ of Series 2008A Bonds, and any Series 2008A Bonds issued in replacement thereof.

"Subseries 2008B-1 Bonds" means \$_____ of Series 2008B Bonds, and any Series 2008B Bonds issued in replacement thereof.

"Subseries 2008B-2 Bonds" means \$_____ of Series 2008B Bonds, and any Series 2008B Bonds issued in replacement thereof.

"Subseries 2008C-1 Bonds" means \$_____ of Series 2008C Bonds, and any Series 2008C Bonds issued in replacement thereof.

"Subseries 2008C-2 Bonds" means \$_____ of Series 2008C Bonds, and any Series 2008C Bonds issued in replacement thereof.

"Subseries 2008C-3 Bonds" means \$_____ of Series 2008C Bonds, and any Series 2008C Bonds issued in replacement thereof.

"Subseries 2008C-4 Bonds" means \$_____ of Series 2008C Bonds, and any Series 2008C Bonds issued in replacement thereof.

"Supplement No. 42" means Supplemental Indenture for Obligation No. 42, dated as of April 1, 2008, by and among the Corporation, Alexandria Hospital and the Master Trustee.

"Supplement No. 43" means Supplemental Indenture for Obligation No. 43, dated as of April 1, 2008, by and among Inova, Loudoun Healthcare, Loudoun Hospital and the Master Trustee.

“Supplement No. 44” means Supplemental Indenture for Obligation No. 44, dated as of April 1, 2008, by and between the Corporation and the Master Trustee.

“Tender Agent” means each Person qualified to act as Tender Agent with respect to the Bonds other than ARS and so appointed by the Borrower and so acting from time to time, and its successors.

“Tender Agent Agreement” means an agreement among the Borrower, a Remarketing Agent and a Tender Agent whereby such Tender Agent undertakes to perform the duties of the Tender Agent under the applicable Trust Agreement with respect to the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be, as amended from time to time.

“Tender Date” means the date on which Bonds are required to be purchased pursuant to the provisions of the applicable Trust Agreement.

“Tender Price” means the purchase price to be paid to the Holders of Bonds purchased pursuant to the provisions of the applicable Trust Agreement, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Tender Date (if the Tender Date is not an Interest Payment Date); provided, however, that in the case of a Conversion or attempted Conversion from a Long-Term Interest Rate Period on a date on which the Bonds of a Subseries being converted would otherwise be subject to optional redemption pursuant to the provisions of the applicable Trust Agreement if such Conversion did not occur, the Tender Price shall also include the optional redemption premium, if any, provided for such date under the provisions of the applicable Trust Agreement.

“Total Required Payments” means Total Required Payments as defined in the applicable Agreement.

“Trust Agreement” means the Series 2008A Trust Agreement, the Series 2008B Trust Agreement or the Series 2008C Trust Agreement, as the case may be.

“Undelivered Bond” means any Bond which constitutes an Undelivered Bond under the provisions of the applicable Trust Agreement.

“United States Bankruptcy Code” means Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq.

“Weekly Interest Rate” means a variable interest rate for Bonds established in accordance with the provisions of the applicable Trust Agreement.

“Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect for Bonds.

Establishment of Funds

Each of the Trust Agreements creates the following funds to be held by the applicable Bond Trustee:

1. the Purchase Fund;
2. the Bond Fund; and
3. the Redemption Fund.

Each of the Trust Agreements creates three separate accounts within the Purchase Fund, which accounts are designated as the “Remarketing Proceeds Account”, the “Liquidity Facility Proceeds Account” and the “Borrower Purchase Account.” In addition, each of the Trust Agreements creates two separate accounts in the Bond Fund, which accounts are designated as the “Interest Account” and the “Sinking Fund Account”.

Each of the Series 2008A Trust Agreement, the Series 2008B Trust Agreement and the Series 2008C Trust Agreement also creates an account designated as the “Issuance Account.”

The money and securities in each of the aforementioned funds and accounts will be held in trust and applied as provided in the applicable Trust Agreement and, pending such application, will be subject to a lien and charge in favor of the Holders and for the further security of such Holders.

The Issuance Accounts

All issuance costs, within the meaning of Section 147(g) of the Code, incurred in connection with the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, respectively, and to be financed from the proceeds of the sale of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds, respectively, will be paid only from the respective Issuance Account.

Deposits to the Bond Fund and the Redemption Fund

The Bond Trustee will deposit all amounts received as Loan Repayments in the following order, subject to credits as provided in the Series 2008A Trust Agreement:

- (i) into the Interest Account, on the Business Day next preceding each Interest Payment Date for the Series 2008A Bonds, an amount equal to the interest payable on such Series 2008A Bonds on such Interest Payment Date; and
- (ii) into the Sinking Fund Account, commencing on the Business Day immediately preceding May 15, 20__, and continuing on the Business Day immediately preceding each May 15 thereafter, an amount equal to the principal amount of Series 2008A Bonds to be called by mandatory redemption pursuant to the Sinking Fund Requirement or to be paid at maturity on such May 15; provided, however, if any Series

2008A Bonds are bearing interest in an ARS Rate Period (other than a Flexible Auction Period) and such May 15 is not an Interest Payment Date, such amount shall be deposited on the Business Day immediately preceding the Interest Payment Date next succeeding such May 15.

The Bond Trustee will deposit all amounts received as Loan Repayments in the following order, subject to credits as provided in the Series 2008B Trust Agreement:

(i) into the Interest Account, on the Business Day next preceding each Interest Payment Date for the Series 2008B Bonds, an amount equal to the interest payable on such Series 2008B Bonds on such Interest Payment Date; and

(ii) into the Sinking Fund Account, commencing on the Business Day immediately preceding May 15, 20__, and continuing on the Business Day immediately preceding each May 15 thereafter, an amount equal to the principal amount of Series 2008B Bonds to be called by mandatory redemption pursuant to the Sinking Fund Requirement or to be paid at maturity on such May 15; provided, however, if any Series 2008B Bonds are bearing interest in an ARS Rate Period (other than the Flexible Auction Period) and such May 15 is not an Interest Payment Date, such amount shall be deposited on the Business Day immediately preceding the Interest Payment Date next succeeding such May 15.

The Bond Trustee will deposit all amounts received as Loan Repayments in the following order, subject to credits as provided in the Series 2008C Trust Agreement:

(iii) into the Interest Account, on the Business Day next preceding each Interest Payment Date for the Series 2008C Bonds, an amount equal to the interest payable on such Series 2008C Bonds on such Interest Payment Date; and

(iv) into the Sinking Fund Account, commencing on the Business Day immediately preceding April 15, 20__, and continuing on the Business Day immediately preceding each April 15 thereafter, an amount equal to the principal amount of Series 2008C Bonds to be called by mandatory redemption pursuant to the Sinking Fund Requirement or to be paid at maturity on such April 15; provided, however, if any Series 2008C Bonds are bearing interest in an ARS Rate Period (other than the Flexible Auction Period) and such April 15 is not an Interest Payment Date, such amount shall be deposited on the Business Day immediately preceding the Interest Payment Date next succeeding such April 15.

If, after giving effect to the credits specified below, any installment of Loan Repayments should be insufficient to enable the Bond Trustee to make the deposits required above, the Bond Trustee will give the Borrower telephonic notice thereof, promptly confirmed in writing, and request that each future installment of the Loan Repayments be increased as may be necessary to make up any previous deficiency in any of the required payments and to make up any deficiency or loss in any of the above-mentioned accounts and fund.

To the extent that investment earnings are credited to the Interest or Sinking Fund Accounts in accordance with the applicable Trust Agreement or amounts are credited thereto as a result of the application of Bond proceeds of the Series 2008A Bonds, the Series 2008B Bonds, or the Series 2008C Bonds, as the case may be, or a transfer of investment earnings on any other fund or account held by the applicable Bond Trustee, or otherwise, future deposits to such accounts will be reduced by the amount so credited, and the Loan Repayments due from the Borrower following the date upon which such amounts are credited will be reduced by the amounts so credited.

All amounts received by the applicable Bond Trustee as principal of or interest accruing on the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be, to be redeemed as a result of a prepayment of Obligations No. 42, Obligation No. 43 or Obligation No. 44, as the case may be, will be deposited in the Redemption Fund and Interest Account, respectively, when received. All amounts received by the applicable Bond Trustee as redemption premiums will be deposited in the Redemption Fund when received.

All amounts received by the applicable Bond Trustee as principal of or interest accruing on Bonds that have been accelerated pursuant to the provisions of the applicable Trust Agreement described below under the caption "Remedies on Default" will be deposited in the Bond Fund and applied as described below under the caption "Pro Rata Application of Funds."

Bond Fund Accounts

The Bond Trustee will, not later than the close of business on the Business Day next preceding each Interest Payment Date, withdraw from the Interest Account and remit by mail to each Holder which is not a Securities Depository Nominee the amount required to pay interest on the Bonds when due and payable.

At such time as will enable the Bond Trustee to make payments of interest on the Bonds in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee will withdraw from the Interest Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee interest on the Bonds on the next ensuing Interest Payment Date; provided, however, that in no event will the Bond Trustee be required to make such wire transfer prior to the Business Day next preceding each Interest Payment Date, and provided further that such wire transfer will be made not later than 10:00 A.M. on each Interest Payment Date.

In the event the balance in the Interest Account on the Business Day next preceding an Interest Payment Date or date upon which Bonds are to be redeemed is insufficient for the payment of interest becoming due on the Bonds on the next ensuing Interest Payment Date or date upon which Bonds are to be redeemed, the Bond Trustee will notify the Borrower of the amount of the deficiency. Upon notification, the Borrower will immediately deliver to the Bond Trustee an amount sufficient to cure the same.

Money held for the credit of the Sinking Fund Account will be applied during each Bond Year to the retirement of Bonds then Outstanding as follows:

If so requested by the Authorized Group Representative, the Bond Trustee will endeavor to purchase and cancel Bonds or portions thereof then subject to redemption by operation of the Sinking Fund Account at the best price obtainable in accordance with the Bond Trustee's reasonable sale procedures, such price not to exceed the Redemption Price provided in the applicable Trust Agreement which would be payable on the next May 15 to the Holders of the Series 2008A Bonds and the 2008B Bonds and on the next April 15 to the Holders of the Series 2008C Bonds under the provisions of the applicable Trust Agreement if such Bonds or portions were to be called for redemption on such date, plus accrued interest to the date of purchase. The applicable Bond Trustee will pay the interest accrued on such Bonds or portions thereof to the date of settlement therefor from the Interest Account or from other funds provided by the Borrower and the purchase price from the Sinking Fund Account, but no such purchase will be made by the Bond Trustee from money in the Sinking Fund Account within the period of forty-five (45) days immediately preceding the date on which such Bonds are subject to redemption. The aggregate purchase prices of such Bonds so purchased will not exceed the amount deposited in the Sinking Fund Account on account of the Sinking Fund Requirement for such Bonds; provided, however, that if in any Bond Year the amount held for the credit of the Sinking Fund Account plus the principal amount of all Bonds purchased during such Bond Year pursuant to the provisions of the applicable Trust Agreement described in this paragraph exceed the aggregate Sinking Fund Requirements for all Bonds then Outstanding for such Bond Year, the applicable Bond Trustee will endeavor to purchase any Bonds then Outstanding with such excess money; and

The Bond Trustee will call for redemption on the May 15, in the case of the Series 2008A Bonds and the Series 2008B Bonds, and April 15, in the case of the Series 2008C Bonds, immediately following such Bond Year, as provided in the applicable Trust Agreement, Bonds or portions thereof then subject to mandatory redemption in a principal amount equal to the Sinking Fund Requirement for the Bonds for the preceding Bond Year, less the principal amount of any such Bonds retired by purchase pursuant to the provisions of the applicable Trust Agreement described in the preceding paragraph, including any Bonds purchased in excess of the Sinking Fund Requirement for the preceding Bond Year, unless the Borrower shall file an Officer's Certificate with the Bond Trustee directing a different application of such excess; provided, however, if such Bonds are bearing interest in an ARS Rate Period (other than a Flexible Auction Period) and such May 15, in the case of the Series 2008A Bonds and the Series 2008B Bonds, and April 15, in the case of the Series 2008C Bonds, is not an Interest Payment Date, the Bond Trustee shall call such Bonds or portions thereof then subject to mandatory redemption on the Interest Payment Date immediately succeeding such May 15, in the case of the Series 2008A Bonds and the Series 2008B Bonds, and April 15, in the case of the Series 2008C Bonds. Such redemption shall be made pursuant to the provisions of the applicable Trust Agreement. On or prior to each such redemption date, the Bond Trustee shall withdraw from the Interest Account and the Sinking Fund Account the respective amounts required for paying the interest on and the redemption price of the Bonds or portions thereof so called for redemption. If such May 15, in the case of the Series 2008A Bonds and the Series 2008B Bonds, and April 15, in the case of the Series 2008C Bonds, is the stated maturity date of any such Bonds, the Bond

Trustee shall not call such Bonds for redemption but shall pay from the Sinking Fund Account the principal of such Bonds when due and payable; provided, however, if such Bonds are bearing interest in an ARS Rate Period (other than a Flexible Auction Period) and such May 15, in the case of the Series 2008A Bonds and the Series 2008B Bonds, and such April 15, in the case of the Series 2008C Bonds, is not an Interest Payment Date, the Bond Trustee shall pay the principal of such Bonds on the Interest Payment Date immediately succeeding such May 15, in the case of the Series 2008A Bonds and the Series 2008B Bonds, and such April 15, in the case of the Series 2008C Bonds. Not later than 10:00 a.m. on each such redemption date, the Bond Trustee shall withdraw from the Interest Account and the Sinking Fund Account and set aside the amounts required for paying the interest on and the Redemption Price of the Bonds or portions thereof so called for redemption.

In the event the balance in the Sinking Fund Account on the date a deposit is required to be made is insufficient for the next scheduled payment of the Sinking Fund Requirement on the Bonds, the Bond Trustee will notify the Borrower of the amount of such deficiency. Upon notification, the Borrower will immediately deliver to the Bond Trustee an amount sufficient to cure the same.

If, in any Bond Year, by the application of money in the Sinking Fund Account, the Bond Trustee should purchase and cancel Bonds in excess of the aggregate Sinking Fund Requirements for such Bond Year, the Bond Trustee will file with the Authority and the Borrower not later than the twentieth (20th) day prior to the next May 15 or the next April 15, as the case may be, on which Bonds are to be redeemed a statement identifying the Bonds purchased or delivered during such Bond Year and the amount of such excess. The Borrower will thereafter cause an Officer's Certificate to be filed with the Bond Trustee not later than the tenth (10th) day prior to such May 15 or April 15, as the case may be, setting forth with respect to the amount of such excess the years in which the Sinking Fund Requirements with respect to the Bonds are to be reduced and the amount by which the Sinking Fund Requirements so determined are to be reduced. In the event no such Officer's Certificate is filed with the Bond Trustee, the Bond Trustee will apply such excess to the Sinking Fund Requirements with respect to the Bonds in inverse order of maturity.

Upon the retirement of any Bonds by purchase or redemption pursuant to the provisions of the applicable Trust Agreement described under this caption, the Bond Trustee will file with the Authority and the Borrower a statement identifying such Bonds and setting forth the date of purchase or redemption, the amount of the purchase price or the Redemption Price of such Bonds and the amount paid as interest thereon. The expenses incurred in connection with the purchase or redemption of any such Bonds are required to be paid by the Borrower as part of the Required Payments under the Agreement.

Redemption Fund

Money held for the credit of the Redemption Fund will be applied to the purchase or redemption of Bonds in accordance with the provisions of the applicable Trust Agreement.

Purchase Fund

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of the Bonds of a Subseries on a Tender Date, the Tender Agent will deposit such proceeds in the Remarketing Proceeds Account of the Purchase Fund for application to the Tender Price of such Bonds and, if the Tender Agent is not a paying agent with respect to such Bonds, will transmit such proceeds to the Bond Trustee for such application. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Liquidity Facility Provider Bonds, the Tender Agent will immediately pay such proceeds to the Liquidity Facility Provider.

Liquidity Facility Proceeds Account. Upon receipt from the Liquidity Facility Provider of the immediately available funds transferred to the Tender Agent pursuant to the applicable Trust Agreement, the Tender Agent will deposit such money in the Liquidity Facility Proceeds Account of the Purchase Fund for application to the Tender Price of the Bonds of a Subseries required to be purchased on a Tender Date to the extent that the money on deposit in the Remarketing Proceeds Account of the Purchase Fund is not sufficient. Any amounts deposited in the Liquidity Facility Proceeds Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds of a Subseries will be immediately returned to the Liquidity Facility Provider.

Borrower Purchase Account. Upon receipt from the Borrower of any funds for the purchase of tendered Bonds of a Subseries, the Tender Agent will deposit such money in the Borrower Purchase Account of the Purchase Fund for application to the Tender Price of the Bonds of a Subseries required to be purchased on a Tender Date to the extent that the money on deposit in the Remarketing Proceeds Account and the Liquidity Facility Proceeds Account of the Purchase Fund is not sufficient. Any amounts deposited in the Borrower Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Bonds of a Subseries will be immediately returned to the Borrower.

Liquidity Facility

A Liquidity Facility, in an amount equal to the sum of outstanding principal and interest calculated at the Maximum Bond Interest Rate for 190 days, or such other amount as may be approved by each Rating Agency, shall be maintained by the Borrower for the Bonds of a Subseries bearing interest at the Weekly Interest Rate, the Daily Interest Rate or Bond Interest Term Rates and, if and to the extent that the Borrower shall elect, for the Bonds of a Subseries bearing interest at the Long-Term Interest Rate.

If there is not a sufficient amount of money available to pay the Tender Price pursuant to the Tender Agent Agreement and the applicable Trust Agreement on a Tender Date on which the Bonds of a Subseries are required to be purchased pursuant to the applicable Trust Agreement, the Tender Agent shall make a Request or Requests under the Liquidity Facility in accordance with its terms, at the times and in the manner required by the Tender Agent Agreement to receive immediately available funds on the Tender Date sufficient to pay the balance of the Tender Price. The Tender Agent agrees to deposit the proceeds of such Requests in the Liquidity Facility Proceeds Account and the Tender Agent Agreement pending application of that money to the

payment of the Tender Price. In determining the amount of the Tender Price then due, the Tender Agent shall not take into consideration any Liquidity Facility Provider Bonds or Borrower Bonds. No Requests shall be made under a Liquidity Facility to pay the Tender Price of Liquidity Facility Provider Bonds or Borrower Bonds. Liquidity Facility Provider Bonds and Borrower Bonds may not be tendered for purchase at the option of the Liquidity Facility Provider or the Borrower, respectively.

Alternate Liquidity Facility

Prior to the expiration or termination of a Liquidity Facility relating to the Bonds of a Subseries, in accordance with the terms of such Liquidity Facility, the Borrower may provide for the delivery to the Tender Agent of an Alternate Liquidity Facility which has a term of at least 364 days. Any Alternate Liquidity Facility delivered to the Tender Agent shall be delivered and become effective not later than 10 days prior to the date on which the former Liquidity Facility terminates or expires and shall contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Tender Agent, the Borrower shall furnish to the Tender Agent (A) if the Alternate Liquidity Facility is issued by a Liquidity Facility Provider other than a domestic commercial bank, an Opinion of Counsel reasonably satisfactory to the Authority, the Tender Agent and the Remarketing Agent that no registration of the Alternate Liquidity Facility is required under the Securities Act, and no qualification of the applicable Trust Agreement is required under the Trust Indenture Act, or that all applicable registration or qualification requirements have been fulfilled and (B) an Opinion of Counsel satisfactory to the Authority, the Tender Agent and the Remarketing Agent to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer thereof.

In lieu of the Opinion of Counsel described in clause (A) of the preceding paragraph, there may be delivered an Opinion of Counsel reasonably satisfactory to the Authority, the Borrower, the Remarketing Agent and the Tender Agent to the effect that either (A) at all times during the term of the Alternate Liquidity Facility, the Bonds benefitted thereby will be offered, sold and held by Holders in transactions not constituting a public offering of the Bonds under the Securities Act, and accordingly no registration under the Securities Act, nor qualification of the applicable Trust Agreement under the Trust Indenture Act, will be required in connection with the issuance and delivery of the Alternate Liquidity Facility or the remarketing of the Bonds with the benefits thereof, or (B) the offering and sale of the Bonds benefitted thereby, to the extent evidencing the Alternate Liquidity Facility, has been registered under the Securities Act and any indenture required to be qualified with respect thereto under the Trust Indenture Act has been so qualified. If the opinion described in clause (A) of this paragraph is given, the Bonds and any transfer records relating to the Bonds shall be noted indicating the restrictions on sale and transferability described in such clause (A).

Security for Deposits

Any and all money received by the Authority under the provisions of the applicable Trust Agreement will be deposited as received by the Authority with the Bond Trustee (or one or more other Depositaries as provided in the applicable Trust Agreement) and will be trust funds under

the terms thereof and will not be subject to any lien or attachment by any creditor of the Authority or the Borrower. Such money will be held in trust and applied in accordance with the provisions of the applicable Trust Agreement.

Investment of Money

Money held for the credit of all funds and accounts (other than the Purchase Fund) created under the applicable Trust Agreement will be continuously invested and reinvested by the Bond Trustee in Investment Obligations in accordance with the written instructions of the Authorized Group Representative as provided in the applicable Trust Agreement; provided, however, that money held for the credit of any funds or accounts created under the applicable Trust Agreement will be invested solely in Investment Obligations. Any such Investment Obligations are required to mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended.

Investment Obligations acquired with money and credited to any fund or account established under the applicable Trust Agreement will be held by or under the control of the Bond Trustee and while so held will be deemed at all times to be part of such fund or account in which such money was originally held, and the interest accruing thereon and any profit or loss realized upon the disposition or maturity of such investment will be credited to or charged against such fund or account. The Bond Trustee will sell or reduce to cash a sufficient amount of such Investment Obligations whenever it will be necessary so to do in order to provide money to make any payment or transfer of money from any such fund or account. Any such sale shall be either (i) at a price approved by the Authorized Group Representative (ii) at the best price attainable in accordance with the Bond Trustee's reasonable sale procedure. The Bond Trustee will not be liable or responsible for any loss resulting from any such investment.

Valuation

For the purpose of determining the amount on deposit in any fund or account, Investment Obligations in which money in such fund or account is invested will be valued (a) at face value if such Investment Obligations mature within six (6) months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six (6) months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such Investment Obligations.

The Bond Trustee will value the Investment Obligations in the funds and accounts established under the Trust Agreement annually within two (2) Business Days prior to each principal payment date. In addition, the Investment Obligations will be valued by the Bond Trustee at any time requested by the Authorized Group Representative on reasonable notice to the Bond Trustee (which period of notice may be waived or reduced by the applicable Bond Trustee); provided, however, that the Bond Trustee will not be required to value the Investment Obligations more than once in any calendar month other than as provided in the applicable Trust Agreement.

Events of Default

Each of the following events is an Event of Default under each Trust Agreement: (a) payment of any installment of interest on any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, shall not be made by the Authority when the same shall become due and payable; (b) payment of the principal or the redemption premium, if any, of any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, shall not be made by the Authority when the same shall become due and payable, whether at maturity or by proceedings for redemption or pursuant to a Sinking Fund Requirement or otherwise; (c) if payment of the purchase price of any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, tendered pursuant to the applicable Trust Agreement shall not be made when such payment is due; (d) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the applicable Trust Agreement or any agreement supplemental thereto and such default shall continue for thirty (30) days or such further time as may be granted in writing by the applicable Bond Trustee after receipt by the Authority of a written notice from the applicable Bond Trustee specifying such default and requiring the same to be remedied; or (e) an “Event of Default” shall have occurred under the applicable Agreement, and such “Event of Default” shall not have been remedied or waived.

Remedies on Default

Upon the happening and continuance of any Event of Default specified above, the applicable Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding shall, by notice in writing to the Authority and the Borrower, declare the principal of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable. If at any time after the principal of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the applicable Trust Agreement, money shall have accumulated in or shall have been paid into the Bond Fund sufficient to pay the principal of all matured Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, and all arrears of interest, if any, upon all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding (except the principal of any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, not then due and payable by its terms and the interest accrued on such since the last Interest Payment Date), and the charges, compensation, expenses, disbursements, advances and liabilities of the applicable Bond Trustee and all other amounts then payable by the Authority under the applicable Trust Agreement shall have been paid or a sum sufficient to pay the same shall have been deposited with the applicable Bond Trustee, and every other default known to the applicable Bond Trustee in the observance or performance of any covenant, condition or agreement contained in the Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, or in the applicable Trust Agreement (other than a default in the payment of the principal of such Series

2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then due only because of a declaration under this paragraph) shall have been remedied or waived to the satisfaction of the applicable Bond Trustee, then and in every such case the applicable Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, not then due except by virtue of such declaration then Outstanding shall, by written notice to the Authority and the Borrower, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Upon the happening and continuance of any Event of Default, then and in every such case the applicable Bond Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding shall proceed, subject to the provisions of the applicable Trust Agreement concerning indemnification of the applicable Bond Trustee, to protect and enforce its rights and the rights of the Holders under the laws of the State or under the applicable Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the applicable Trust Agreement or in aid or execution of any power in the applicable Trust Agreement granted or for the enforcement of any proper legal or equitable remedy, as the applicable Bond Trustee, being advised by counsel chosen by the applicable Bond Trustee, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the applicable Trust Agreement, the applicable Bond Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any Event of Default becoming and remaining due from the Authority for principal, interest or otherwise under any of the provisions of the applicable Trust Agreement or of the Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, together with interest on overdue payments of principal at the rate or rates of interest payable on any Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, Outstanding and all costs and expenses of collection and of all proceedings thereunder, without prejudice to any other right or remedy of the applicable Bond Trustee or of the Holders and to recover and enforce any judgment or decree against the Authority, but solely as provided in the applicable Trust Agreement, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect (but solely from money available for such purposes), in any manner provided by law, the money adjudged or decreed to be payable.

Pro Rata Application of Funds

If at any time the money in the Bond Fund shall not be sufficient to pay the interest on or the principal of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, as the same shall become due and payable (either by their terms or by acceleration of maturity), such money, together with any money then available or thereafter becoming available for such purpose shall be applied as follows: (i) if the principal of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, shall not have become or shall

not have been declared due and payable, all such money in the Bond Fund shall be applied: first: to the payment to the persons entitled thereto of all installments of interest on Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then due and payable in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be; second: to the payment to the persons entitled thereto of the unpaid principal of any Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, that shall have become due and payable (other than Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, called for redemption for the payment of which money is held pursuant to the provisions of the applicable Trust Agreement), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full the principal of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and third: to the payment of the interest on and the principal of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, to the purchase and retirement of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, and to the redemption of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, all in accordance with the provisions of the applicable Trust Agreement; (ii) if the principal of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, shall have become or shall have been declared due and payable, all such money shall be applied to the payment of principal and interest then due upon the Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest or any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, over any other Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference; and (iii) if the principal of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of the applicable Trust Agreement, then, subject to the provisions of clause (ii) above in the event that the principal of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, shall later become due and payable or be declared due and payable, the money then remaining in and thereafter accruing to the Bond Fund shall be applied in accordance with the provisions of clause (i) above.

Control of Proceedings by Holders

The Holders of a majority in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding shall have the right, subject to the provisions of the applicable Trust Agreement concerning indemnification of the applicable Bond Trustee, by an instrument or concurrent instruments in writing executed and delivered to the applicable Bond Trustee, to direct the method and place of conducting all

remedial proceedings to be taken by the applicable Bond Trustee under the applicable Trust Agreement, provided that such direction shall be in accordance with law and the provisions of the applicable Trust Agreement.

Restrictions Upon Actions by Individual Holders

Except as provided in the applicable Trust Agreement, no Holder shall have any right to institute any suit, action or proceeding in equity or at law on any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, or for the execution of any trust under the applicable Trust Agreement or for any other remedy thereunder unless such Holder previously shall have given to the applicable Bond Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding shall have made a written request of the applicable Bond Trustee after the right to exercise such powers or right of action as the case may be, shall have accrued, and shall have afforded the applicable Bond Trustee a reasonable opportunity either to proceed to exercise the powers granted in the applicable Trust Agreement or to institute such action, suit or proceedings in its or their name, and unless, also, there shall have been offered to the applicable Bond Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the applicable Bond Trustee shall have refused or neglected to comply with such request within a reasonable time. Notwithstanding the foregoing provisions of each Trust Agreement and without complying therewith, the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Holders under such Trust Agreement.

Waivers

The applicable Bond Trustee may, and upon written request of the Holders of not less than a majority in principal amount of the Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding shall, waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the applicable Trust Agreement or before the completion of the enforcement of any rights of the applicable Bond Trustee under the applicable Trust Agreement, but such waiver shall not waive any subsequent Event of Default or impair any rights or remedies consequent thereon.

Notice of Default

The applicable Bond Trustee shall give the Auction Agent (if any) and the Remarketing Agents (if any) immediate notice of any Event of Default set forth in clauses (a), (b) and (c) of “Events of Default” above. The applicable Bond Trustee shall mail to all Holders at their addresses as they appear on the registration books written notice of the occurrence of any Event of Default within thirty (30) days after the applicable Bond Trustee shall have notice of the same, pursuant to the provisions of the applicable Trust Agreement, that any such Event of Default

shall have occurred; provided that, except upon the happening of an Event of Default specified in clause (a) of “SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2008A, SERIES 2008B AND SERIES 2008C LOAN AGREEMENTS - Events of Default and Remedies” and clauses (a), (b) and (c) of “Events of Default” above, the applicable Bond Trustee may withhold such notice to the Holders if in its opinion such withholding is in the interest of the Holders; and provided further that the applicable Bond Trustee shall not be subject to any liability to any Holder by reason of its failure to mail any such notice.

Removal of Bond Trustee

The Bond Trustee may be removed at any time by an instrument or concurrent instruments in writing, executed by (i) the Holders of not less than a majority in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding or (ii) if no Event of Default shall have occurred and be continuing, by the Authorized Group Representative and filed with the Authority, not less than sixty (60) days before such removal is to take effect as stated in said instrument or instruments.

The Bond Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the applicable Trust Agreement with respect to the duties and obligations of the Bond Trustee by any court of competent jurisdiction upon the application of the Authority or the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding.

Appointment of Successor Bond Trustee

If at any time the Bond Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as Bond Trustee shall be taken over by any governmental official, agency, department or board, the position of Bond Trustee shall thereupon become vacant. If the position of Bond Trustee shall become vacant for any reason, the Borrower shall recommend and the Authority shall appoint a Bond Trustee to fill such vacancy. A successor Bond Trustee shall not be required if the Bond Trustee shall sell or assign substantially all of its corporate trust business and the vendee or assignee shall continue in the corporate trust business, or if a transfer of the corporate trust department of the Bond Trustee is required by operation of law, provided that such vendee, assignee or transferee is of good standing and is otherwise qualified to act as a successor Bond Trustee.

At any time within one (1) year after any such vacancy shall have occurred, the Holders of not less than twenty-five percent (25%) in principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding, by an instrument or concurrent instruments in writing, executed by such Holders and filed with the Authority, may nominate a successor Bond Trustee, which the Authority shall appoint and which shall supersede any Bond Trustee theretofore appointed by the Authority.

If no appointment of a successor Bond Trustee shall be made pursuant to the foregoing provisions, any Holder or any retiring Bond Trustee may apply to any court of competent

jurisdiction to appoint a successor Bond Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Bond Trustee.

Appointment of Remarketing Agent

Each Remarketing Agent appointed by the Borrower shall designate its principal office in the Remarketing Agreement. The Remarketing Agent shall signify its acceptance of the duties and obligations imposed upon it under the applicable Trust Agreement by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the Borrower, the Authority, the applicable Bond Trustee, the Tender Agent and the Liquidity Facility Provider, under which the Remarketing Agent shall agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Borrower, the Authority, the applicable Bond Trustee, the Tender Agent and the Liquidity Facility Provider at all reasonable times.

Tender Agent

Each Tender Agent appointed by the Borrower shall designate its Designated Corporate Trust Office for delivery of notices and delivery of Bonds in the Tender Agent Agreement and signify its acceptance of the duties and obligations imposed upon it under the applicable Trust Agreement by a written instrument of acceptance (which may be the Tender Agent Agreement) delivered to the Borrower, the Authority, the Bond Trustee, the Liquidity Facility Provider and the Remarketing Agent. By acceptance of its appointment under the applicable Trust Agreement, the Tender Agent agrees:

- (i) to hold all Bonds delivered to it as agent and bailee of, and in escrow for the benefit of, the respective Holders which have delivered such Bonds until money representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Holders;
- (ii) to hold all Bonds registered in the name of the new Holders thereof which have been delivered to it by the applicable Bond Trustee for delivery to the applicable Remarketing Agent in accordance with the Tender Agent Agreement;
- (iii) to hold Bonds for the account of the Borrower and Liquidity Facility Provider Bonds for the account of the Liquidity Facility Provider; and
- (iv) to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Authority, the Bond Trustee, the Borrower, the Liquidity Facility Provider and the Remarketing Agent at all reasonable times.

Qualifications and Rights of Tender Agent

Each Tender Agent shall be a commercial bank with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$15,000,000 and authorized by

law to perform all the duties imposed upon it by the applicable Trust Agreement and the Tender Agent Agreement. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the applicable Trust Agreement by giving at least 60 days' notice to the Authority, the applicable Bond Trustee, the Borrower, the Liquidity Facility Provider and the Remarketing Agent. A Tender Agent may be removed at any time by an instrument signed by the Borrower, and filed with the applicable Bond Trustee. However, such resignation or removal shall not take effect prior to the date that a successor Tender Agent has been appointed by the Borrower and the successor Tender Agent has accepted such appointment, such appointment has been approved by the Liquidity Facility Provider and the Liquidity Facility, if any, has been transferred, in accordance with its terms, to that successor.

Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent shall deliver any Bonds and money held by it in such capacity to its successor.

Supplemental Trust Agreements without Consent of Holders

The Authority and the applicable Bond Trustee, from time to time and at any time, may enter into such agreements supplemental to each Trust Agreement as shall be consistent with the terms and provisions of such Trust Agreement and the applicable Agreement and, in the opinion of the applicable Bond Trustee, who may rely upon a written Opinion of Counsel, shall not affect materially and adversely the Holders: (a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision therein that may be inconsistent with any other provision therein, to make any other provisions with respect to matters or questions arising under such Trust Agreement, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in such Trust Agreement; (b) to grant to or confer upon the applicable Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the applicable Bond Trustee; (c) to add to the provisions of such Trust Agreement other conditions, limitations and restrictions thereafter to be observed; (d) to add to the covenants and agreements of the Authority in such Trust Agreement other covenants and agreements thereafter to be observed by the Authority or to surrender any right or power in such Trust Agreement reserved to or conferred upon the Authority; (e) to permit the qualification of such Trust Agreement under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if the Authority so determines, to add to such Trust Agreement or any supplemental trust agreement such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law; (f) to obtain or maintain a rating on the Bonds whether or not a Liquidity Facility is in effect; (g) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility, or to provide, if necessary, for more than one financial institution or other Person to be the provider of a Liquidity Facility; (h) to facilitate and implement any book-entry system (or any termination of a book-entry system) with respect to the Bonds; (i) to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds or (j) prior to the Conversion of any Bonds to ARS, to modify any of the provisions of such Trust Agreement, relating to ARS, or to provide for credit enhancement with respect to the Bonds to be converted to ARS.

Modification of Trust Agreement with Consent of Holders

The Holders of not less than a majority of the aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, then Outstanding shall have the right, from time to time to consent to and approve the adoption by the Authority and the acceptance by the applicable Bond Trustee of such trust agreement or trust agreements supplemental to the each Trust Agreement as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in such Trust Agreement; provided, however, that nothing in each Trust Agreement shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds issued under such Trust Agreement without the consent of the Holders of such Bonds, or (b) a reduction in the principal amount of any Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds or the redemption premium, if any, or the rate of interest thereon without the consent of the Holders of such Bonds, or (c) the creation of a pledge of receipts and revenues to be received by the Authority under the applicable Agreement superior to the pledge created by such Trust Agreement without the consent of the Holders of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, Outstanding, or (d) a preference or priority of any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, over any other Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, without the consent of the Holders of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, Outstanding, or (e) a reduction in the aggregate principal amount of Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, required for consent to such supplemental trust agreement without the consent of the Holders of all Series 2008A Bonds, Series 2008B Bonds or Series 2008C Bonds, as the case may be, Outstanding.

Release of Trust Agreement

Any Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, shall be deemed paid and no longer Outstanding under the Trust Agreement pursuant to which it was issued and shall cease to be entitled to the lien, benefit or security under such Trust Agreement when (i) it shall have become due and payable in accordance with its terms or as otherwise provided for in such Trust Agreement, (ii) it shall have been duly called for redemption, or (iii) the applicable Bond Trustee shall have been given irrevocable instructions by the Authority to call such Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, for redemption, and (iv) the whole amount of the principal of, redemption premium, if any, and interest so due and payable upon such Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, shall be paid or if the applicable Bond Trustee shall hold sufficient money or Defeasance Obligation the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, redemption premium, if any, and the interest on such Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, to the maturity date of such Series 2008A Bond, Series 2008B Bond or Series 2008C Bond, as the case may be, or to the date specified for the redemption thereof.

Notwithstanding the foregoing provisions of each Trust Agreement, Bonds bearing interest at Bond Interest Term Rates, Daily Interest Rates and Weekly Interest Rates may be advance refunded if (a) such Bonds shall be deemed to bear interest at the Maximum Bond Interest Rate and moneys or Defeasance Obligations are deposited with the applicable Bond Trustee or a Liquidity Facility meeting the requirements of the applicable Trust Agreement is in effect in an amount which is sufficient to pay the Tender Price of such Bonds and (b) the applicable Bond Trustee shall have received written confirmation from each Rating Agency then maintaining a rating on Bonds that such advance refunding will not reduce its rating on the such Bonds. If such advance refunding is of ARS either (c) such Bonds shall mature or be called for redemption on the next Interest Payment Date for such Bonds or (d) such Bonds shall be deemed to bear interest at the Maximum Bond Interest Rate.

No Recourse Against Members, Officers or Employees of the Authority or the County

The members, officers and employees of the Authority or the County are not personally liable for any costs, losses, damages or liabilities caused or incurred by the Authority or the County in connection with the Trust Agreements, or for the payment of any sum or for the performance of any obligation under the Trust Agreements.

Holders of Series 2008A Bonds Deemed Holders of Obligation No. 42

In the event that any request, direction or consent is requested or permitted by the Master Indenture of the Holders of Obligations issued thereunder, including Obligation No. 42, the Holders of Series 2008A Bonds then Outstanding shall be deemed to be Holders of Obligation No. 42 for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Series 2008A Bonds then Outstanding held by each such Holder of Series 2008A Bonds bears to the aggregate principal amount of all Series 2008A Bonds then Outstanding.

Holders of Series 2008B Bonds Deemed Holders of Obligation No. 43

In the event that any request, direction or consent is requested or permitted by the Master Indenture of the Holders of Obligations issued thereunder, including Obligation No. 43, the Holders of Series 2008B Bonds then Outstanding shall be deemed to be Holders of Obligation No. 43 for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Series 2008B Bonds then Outstanding held by each such Holder of Series 2008B Bonds bears to the aggregate principal amount of all Series 2008B Bonds then Outstanding.

Holders of Series 2008C Bonds Deemed Holders of Obligation No. 44

In the event that any request, direction or consent is requested or permitted by the Master Indenture of the Holders of Obligations issued thereunder, including Obligation No. 44, the Holders of Series 2008C Bonds then Outstanding shall be deemed to be Holders of Obligation No. 44 for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Series 2008C Bonds then Outstanding held by each such Holder

of Series 2008C Bonds bears to the aggregate principal amount of all Series 2008C Bonds then Outstanding.

Payments Due on Legal Holidays

In any case where the date of maturity of interest on or principal of Bonds or the date fixed for redemption of any Bonds shall be other than a Business Day, then payment of such interest or principal (and premium, if any) need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption or prepayment, and no interest shall accrue for the period after the stated date for such payment.

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2008A, SERIES 2008B AND SERIES 2008C LOAN AGREEMENTS

The respective Loan Agreements relating to the loan of the proceeds of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds are substantially similar in form and content. The following statements are brief summaries of certain provisions of the Loan Agreements. The following statements are in all respects subject to and qualified in their entirety by reference to the respective Loan Agreements.

Security

As security for repayment of the applicable Loan, the Borrower executed and delivered Obligation No. 42 to the Authority. Obligation No. 42 is issued under and secured by the Master Indenture and Supplement No. 42. As security for repayment of the applicable Loan, the Borrower executed and delivered Obligation No. 43 to the Authority. Obligation No. 43 is issued under and secured by the Master Indenture and Supplement No. 43. As security for repayment of the applicable Loan, the Borrower executed and delivered Obligation No. 44 to the Authority. Obligation No. 44 is issued under and secured by the Master Indenture and Supplement No. 44. The Master Indenture provides that any Member may incur Additional Indebtedness secured by the security for Obligation Nos. 42, 43 and 44 under the terms and conditions and to the extent described in the Master Indenture.

Total Required Payments

The Borrower is required to make Loan Repayments and Required Payments under the Agreement when due (each as described below). Loan Repayments are to be paid, when due and payable, to the applicable Bond Trustee for deposit in the Bond Fund or the Redemption Fund, as the case may be. Required Payments under each Agreement are to be paid by the Borrower directly, when due and payable, to the United States Government or to the Tender Agent, as provided for in each Agreement.

Loan Repayments

Loan Repayments are required to be sufficient in the aggregate to repay the applicable Loan and interest thereon and to pay in full, when due (whether by maturity, redemption,

acceleration or otherwise), all Bonds issued under the applicable Trust Agreement, together with the total interest and redemption premium, if any, thereon. The Borrower is required to repay the applicable Loan in installments or as otherwise provided in the applicable Agreement, each installment being deemed a Loan Repayment. The Borrower may prepay all or any part of the applicable Loan as provided in the Agreement.

Required Payments Under the Agreement

(a) The Borrower will pay, when due and payable, as Required Payments under the Agreement, the following costs and expenses, exclusive of costs and expenses payable from proceeds of the Bonds:

(i) the fees and other costs payable to the Bond Trustee, the Tender Agent, the Remarketing Agents, the Auction Agent and the Broker-Dealers;

(ii) all costs incurred in connection with the purchase or redemption of Bonds to the extent money is not otherwise available therefor;

(iii) the fees and other costs incurred for services of such attorneys, management consultants and accountants as are employed by the applicable Bond Trustee, the Master Trustee or the Authority to make examinations, provide services, render opinions or prepare reports required or permitted under the applicable Agreement, the Master Indenture or the applicable Trust Agreement;

(iv) all costs incurred by the Authority, the applicable Bond Trustee or the Tender Agent in connection with the discontinuation of or withdrawal from any book-entry system for the Bonds or any transfer from one book-entry system to another, including, without limitation, the printing and issuance of additional or substitute Bonds in connection with such withdrawal, discontinuance or transfer;

(v) reasonable fees and other costs incurred by the Authority in connection with its administration and enforcement of, and compliance with, the applicable Agreements or the applicable Trust Agreement, including reasonable attorneys' fees; and

(vi) fees and other costs incurred in connection with the issuance of the Bonds to the extent such fees and other costs are not paid from the proceeds of the Bonds; provided, however, in no event shall the amount of such fees and other costs paid from proceeds of the Bonds exceed two percent (2%) of the proceeds of the Bonds, less amounts paid to the underwriter as underwriter's discount.

(b) The Borrower will also cause to be paid, at the times described in the Tax Certificate, the rebate requirement (if any) to the United States of America.

(c) On each date on which the Tender Agent is required to disburse the Tender Price for any Bond, if sufficient money is not otherwise available from the sources specified in the applicable Trust Agreement, the Borrower will pay or cause to be paid to the Tender Agent, in immediately available funds, money in trust for the benefit of the Holders of tendered Bonds in

an amount which, together with any amounts available to the Tender Agent for such purpose, will be sufficient to pay the Tender Price for all tendered Bonds which are to be purchased on such date. Such payments shall not be deemed to be Loan Repayments or to reduce the Borrower's obligations of the Borrower to make Loan Repayments pursuant to the applicable Agreement.

Absolute Obligation to Make Total Required Payments

The obligation of the Borrower to make the Loan Repayments and all Required Payments under the Agreement and Obligation Nos. 42, 43 and 44 and to perform and observe the other agreements contained in each Agreement is absolute and unconditional and will not be abated, diminished or deducted, regardless of any cause or circumstances whatsoever, including, without limitation, any defense, set-off, recoupment or counterclaim that the Borrower may have or assert against the Authority or the applicable Bond Trustee or any other person.

Other Covenants of the Borrower

Each Agreement provides that the Borrower will comply with each covenant, condition and agreement in the Master Indenture and in such Agreement. Each Agreement also sets forth certain other agreements of the Borrower with respect to the investment of funds under the applicable Trust Agreement and secondary market disclosure.

Events of Default and Remedies

Events of Default are defined in each Agreement to include: (a) failure of the Borrower to make any payment in full under such Agreement (other than a Required Payment under the Agreement described in paragraph (a) under the caption "Required Payments under the Agreement") or under Obligation No. 42, Obligation No. 43 or Obligation No. 44, as the case may be, when due, whether at maturity, redemption, acceleration or otherwise, (b) failure of the Borrower to perform, observe or comply with any covenant, condition or agreement on its part under such Agreement (other than a failure to make any payment described in clause (a) of this paragraph, any Loan Repayment or a Required Payment under the Agreement described in paragraphs (b) or (c) under the caption "Required Payments under the Agreement"), including any covenant, condition or agreement in the Master Indenture applicable to the Borrower and incorporated by reference in such Agreement, and such failure continues for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the Borrower by the applicable Bond Trustee or to the Borrower and the applicable Bond Trustee by the Holders of at least twenty-five (25%) in aggregate principal amount of the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be, then Outstanding; provided, however, that if such performance, observation or compliance requires work to be done, action to be taken or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the Borrower commences such performance, observation or compliance within such period and diligently and continuously prosecutes the same to completion, or (c) the Master Trustee has

declared the aggregate principal amount of Obligation No. 42, 43 or 44, as the case may be, and all interest due thereon immediately due and payable in accordance with the Master Indenture.

Upon the happening of an Event of Default, the Authority may take the following remedial steps: (i) in the case of an Event of Default described in clause (a) of the preceding paragraph, the Authority may take whatever action at law or in equity which is necessary or desirable to collect the payments then due; (ii) in the case of an Event of Default described in clause (b) of the preceding paragraph, the Authority may take whatever action at law or in equity which is necessary or desirable to enforce the performance, observance or compliance by the Borrower with any covenant, condition or agreement by the Borrower under the Agreement; and (iii) in the case of an Event of Default described in clause (c) of the preceding paragraph, the Authority shall take such action or cease such action as the Master Trustee shall direct, but only to the extent such directions are consistent with the provisions of the Master Indenture.

Prepayment of the Loan

The Borrower has the option to prepay all or any portion of the unpaid aggregate amount of the applicable Loan, together with accrued interest to the date of prepayment, in accordance with the terms and provisions of the applicable Trust Agreement.

The Borrower has the option to prepay all or any portion of the unpaid aggregate amount of the applicable Loan, including accrued interest to the date of prepayment, from amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or failure of title or as condemnation awards, upon damage or destruction of all or any part (if damage or destruction of such part causes any of the Operating Assets of the Obligated Group to be impracticable to operate, as evidenced by an Officer's Certificate filed with the Authority and the applicable Bond Trustee) of the Operating Assets by fire or casualty, or loss of title to or use of substantially all of the Operating Assets as a result of the failure of title or as a result of eminent domain proceedings or proceedings in lieu thereof.

The Borrower has the option to prepay all of the unpaid aggregate amount of the applicable Loan, including accrued interest to the date of prepayment, upon the occurrence of changes in the Constitution of the United States of America or of the State or of legislation or administrative action, or failure of administrative action by the United States or the State or any agency or political subdivision of either thereof, or by reason of any judicial decision, to such extent that in the opinion of the governing board of the Borrower (expressed in a resolution) and in the opinion of an independent architect, engineer or management consultant (as may be appropriate for the particular event), both filed with the Authority and the applicable Bond Trustee, (i) the applicable Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed on the date of the applicable Agreement are imposed on the Borrower.

Limitation on Liability

All obligations of the Authority expressed or implied in each Agreement for the payment of money or for damages resulting from breach of any covenant, undertaking, agreement or

warranty shall not be a general debt on its part but shall be payable solely from revenues of the Authority derived and to be derived from the Borrower pursuant to the applicable Agreement. Neither the members of the governing board, any officer or employee of the Authority or of the County, nor the members of the board of directors or the officers and employees of the Borrower shall be personally liable for the payment of any sum or for the performance of any obligation under each Agreement. The obligations and undertakings of the Authority in each Agreement shall not be deemed to constitute a debt or general obligation of the Commonwealth of Virginia or any political subdivision thereof including the County and the Authority, and neither the Commonwealth nor any such political subdivision thereof shall be liable under such Agreement.

Amendment of Agreement

Each Agreement may be amended, from time to time, without the consent of or notice to any of the Holders, to cure any ambiguity or formal defect or omission therein or in any supplement thereto; to correct or supplement any provisions therein which may be inconsistent with any other provisions therein or make any other provisions with respect to matters which do not materially or adversely affect the interest of the Holders; to grant or confer upon the applicable Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted or conferred upon the Holders or the applicable Bond Trustee; to add conditions, limitations and restrictions on the Borrower to be observed thereafter; to make any conforming changes necessitated by the delivery of a Liquidity Facility; or to make any conforming changes necessitated by the delivery of any supplement, amendment, restatement, replacement or substitution to the Master Indenture in accordance with the provisions of the Master Indenture. Any other amendments to the Agreements require the approval of the Holders of not less than a majority in aggregate principal amount of the Series 2008A Bonds, the Series 2008B Bonds or the Series 2008C Bonds, as the case may be, then Outstanding.

Exclusion From Gross Income Covenant

The Borrower covenants that it will not take any action which will, or fail to take any action which failure will, cause interest on the Bonds to become includable in the gross income of the owners thereof for federal income tax purposes pursuant to the provisions of the Code. The Borrower agrees to perform the covenants set forth in the Tax Certificate.

SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY FACILITY AGREEMENTS

The respective Liquidity Facility Agreements relating to each Subseries of the Series 2008A Bonds, the Series 2008B Bonds and the Series 2008C Bonds are substantially similar in form and content. The following statements are brief summaries of certain provisions of the Liquidity Facility Agreements. The following statements are in all respects subject to and qualified in their entirety by reference to the respective Liquidity Facility Agreements.

Draws under the Liquidity Facility Agreement

Pursuant to each Trust Agreement, the owner of a Bond that elects to tender such Bond for purchase in accordance with the provisions of such Trust Agreement must give notice of such tender to the Tender Agent, the applicable Bond Trustee and the Remarketing Agent, which notice must include the date on which such Bond or a specified portion thereof is to be purchased (each, an “Optional Tender Date”), and pursuant to each Trust Agreement, the Bonds are subject to mandatory tender for purchase at such times, under such circumstances and upon the terms and conditions as are set forth therein (each, a “Mandatory Tender Date”).

By 12:15 P.M., New York City time, on the Optional Tender Date or the Mandatory Tender Date, as the case may be, the Tender Agent shall make a demand for payment to Inova, by telecopy, telegraph, telex or facsimile transmission, in the form of a certificate (a “Drawing Certificate”), appropriately completed and signed by an authorized officer of the Tender Agent, of the amount being drawn under the applicable Liquidity Facility Agreement (the “Draw Amount”), which Draw Amount shall be equal to the purchase price of all Bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent on such Optional Tender Date or Mandatory Tender Date, as the case may be, or if the Tender Agent has not received a notice from the Remarketing Agent pursuant to the applicable Tender Agent Agreement that the Bonds subject to tender have been remarketed, the Draw Amount shall be equal to the purchase price of all Bonds tendered or deemed tendered on such Optional Tender Date or Mandatory Tender Date, as the case may be. If the Tender Agent submits a Drawing Certificate to Inova by 12:15 P.M., New York City time, on such Optional Tender Date or Mandatory Tender Date, as the case may be, the Obligors shall wire to the Tender Agent, in immediately available funds, an amount equal to the Draw Amount, such payment to be made by not later than 2:30 P.M., New York City time, on such Optional Tender Date or Mandatory Tender Date, as the case may be. If a demand for payment made by the Tender Agent does not, in any instance, conform to the terms and conditions of the applicable Liquidity Facility Agreement, Inova shall give the Tender Agent prompt notice, by telecopy, telegraph, facsimile transmission, e-mail transmission or other similar electronic means, that the demand for payment was not effected in accordance with the terms and conditions of the applicable Liquidity Facility Agreement, stating the reason therefor. Upon being notified that the demand for payment was not effected in conformity with the applicable Liquidity Facility Agreement, the Tender Agent shall immediately attempt to correct any such non-conforming demand for payment.

Other Considerations

There will be no obligation on the part of the Tender Agent to provide any portion of the purchase price of tendered Bonds from its own moneys.

Inova, on behalf of itself and the other Obligors, agrees to maintain the sources of cash and securities (“Same-day Funds”) specified in the periodic reports furnished to each Rating Agency by Inova, as such sources of Same-day Funds may be modified from time to time in the sole discretion of Inova. Notwithstanding anything in the applicable Liquidity Facility Agreement to the contrary, nothing in the applicable Liquidity Facility Agreement shall impose

on the Obligors any obligation to keep any Same-day Funds with the Tender Agent or the Bond Trustee or to maintain the Same-day Funds at any amount.

Each Liquidity Facility Agreement is entered into by Inova, on behalf of itself and the other Obligors, for the benefit of the owners of the Bonds, all of whom shall be entitled to enforce performance and observance of each Liquidity Facility Agreement. In addition, the Tender Agent or the Bond Trustee shall be entitled to take whatever action at law or in equity is necessary or desirable to enforce each Liquidity Facility Agreement.

APPENDIX D

FORMS OF PROPOSED OPINIONS OF BOND COUNSEL

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[Proposed Form of Opinion of Bond Counsel
for Series 2008A Bonds]

April __, 2008

Industrial Development Authority of
Fairfax County, Virginia

We have examined a record of the proceedings relating to the issuance of \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008A, dated the date of their original issuance (the "Series 2008A Bonds"), of the Industrial Development Authority of Fairfax County, Virginia (the "Authority"). The Series 2008A Bonds are issued under and pursuant to Chapter 49, Title 15.2 of the Code of Virginia, 1950, as amended, and a Trust Agreement, dated as of April 1, 2008 (the "Trust Agreement"), between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"), for the purpose of providing funds, together with other available funds, to (i) refund the Prior Bonds (as described in the Trust Agreement) and (ii) pay certain expenses incurred in connection with the issuance of the Series 2008A Bonds.

The Series 2008A Bonds bear interest from the original issuance date thereof initially at a fixed, term rate, and are subject to redemption prior to their maturity in the manner and upon the terms and conditions set forth therein and in the Trust Agreement. The Series 2008A Bonds are issuable in fully registered form in denominations that vary according to the interest mode in which the Series 2008A Bonds may be from time to time. The Series 2008A Bonds can be converted from one interest mode to a different interest mode upon compliance with the terms of the Trust Agreement.

The Authority will lend the proceeds of the Series 2008A Bonds to Inova Health Care Services ("Inova Health Care") and Inova Alexandria Hospital ("Inova Alexandria Hospital") pursuant to a Loan Agreement, dated as of April 1, 2008 (the "Loan Agreement"), among the Authority, Inova Health Care and Inova Alexandria Hospital. The Series 2008A Bonds are secured by, among other things, payments to be made by Inova Health Care and Inova Alexandria Hospital on Obligation No. 42, dated the date of its original issuance ("Obligation No. 42"), issued by Inova Health Care and Inova Alexandria Hospital under the Amended and Restated Master Trust Indenture, dated as of April 1, 2008 (the "Master Trust Indenture"), among Inova Health Care, Inova Health System Foundation ("Inova"), Inova Health System Services ("Services"), Inova Alexandria Hospital, Inova Alexandria Health Services Corporation

("Alexandria Health Services"), Loudoun Healthcare, Inc. ("Loudoun Healthcare"), Loudoun Hospital Center ("Loudoun Hospital" and, together with Inova Health Care, Inova, Services, Inova Alexandria Hospital, Alexandria Health Services and Loudoun Healthcare, the "Members of the Obligated Group") and U.S. Bank National Association, as Master Trustee (the "Master Trustee"), which amends and restates the First Amended and Restated Master Trust Indenture, dated as of October 1, 1985 (the "1985 Master Indenture"), by and among Sovran Bank, N.A. (a predecessor trustee to the Master Trustee), Inova Health Care, Inova, certain other entities which have subsequently withdrawn from the Obligated Group, as defined in the 1985 Master Indenture, and Services, Alexandria Hospital, Alexandria Health Services, Loudoun Healthcare and Loudoun Hospital, which subsequently joined the Obligated Group. Obligation No. 42 is being delivered to the Bond Trustee as evidence of the obligation of Inova Health Care and Inova Alexandria Hospital to repay the loan of the proceeds of the Series 2008A Bonds and as security for the payment of the Series 2008A Bonds. The Master Trust Indenture, as supplemented, is hereinafter referred to as the "Master Indenture". Obligation No. 42 is an unsecured, joint and several, general obligation of each Member of the Obligated Group.

Simultaneously with the issuance of the Series 2008A Bonds, the Authority is issuing its \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008B (the "Series 2008B Bonds") and its \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C (the "Series 2008C Bonds" and, together with the Series 2008A Bonds and the Series 2008B Bonds, the "Series 2008 Bonds"). The Series 2008B Bonds are being issued pursuant to a Trust Agreement, dated as of April 1, 2008 (the "Series 2008B Trust Agreement"), between the Authority and U.S. Bank National Association, as bond trustee, and the Authority will lend the proceeds of the Series 2008B Bonds to Inova, Loudoun Healthcare and Loudoun Hospital pursuant to a Loan Agreement, dated as of April 1, 2008 (the "Series 2008B Loan Agreement"), among the Authority, Inova, Loudoun Healthcare and Loudoun Hospital. The Series 2008C Bonds are being issued pursuant to a Trust Agreement, dated as of April 1, 2008 (the "Series 2008C Trust Agreement"), between the Authority and U.S. Bank National Association, as bond trustee, and the Authority will lend the proceeds of the Series 2008C Bonds to Inova Health Care pursuant to a Loan Agreement, dated as of April 1, 2008 (the "Series 2008C Loan Agreement"), between the Authority and Inova Health Care. The Trust Agreement, the Series 2008B Trust Agreement and the Series 2008C Trust Agreement are hereinafter collectively referred to as the "Trust Agreements." The Loan Agreement, the Series 2008B Loan Agreement, and the Series 2008C Loan Agreement are hereinafter collectively referred to as the "Loan Agreements."

In our capacity as Bond Counsel, we have examined such documents, records of the Authority and the Members of the Obligated Group and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Trust Agreements, the Loan Agreements, Obligation No. 42 and the Master Indenture. Our opinions regarding the authority of and actions by the Authority are based upon direct inquiries by us, examination of a certified copy of the proceedings of the Authority relating to the authorization and issuance of the Series 2008A Bonds and the opinion of counsel

for the Authority of even date herewith as to the authority, procedures and actions of the Authority in connection with the authorization and issuance of the Series 2008A Bonds.

We have also examined one of the Series 2008A Bonds as executed and authenticated.

Based upon such examination, we are of the opinion that, under current law:

1. The Series 2008A Bonds have been duly authorized executed and issued by the Authority.

2. The Trust Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid, binding and enforceable agreement in accordance with its terms.

3. The Series 2008A Bonds are valid and binding limited obligations of the Authority payable in accordance with their terms from payments to be made by Inova Health Care and Inova Alexandria Hospital pursuant to the Loan Agreement and Obligation No. 42, certain funds held by the Bond Trustee under the Trust Agreement and money attributable to the proceeds of the Series 2008A Bonds and the income from the investment thereof and, under certain circumstances, proceeds of casualty insurance, condemnation awards and remedial action taken pursuant to the Master Indenture, the Loan Agreement and the Trust Agreement, and are entitled to the benefit and security of the Trust Agreement.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority, Inova Health Care and Inova Alexandria Hospital and is a valid, binding and enforceable agreement in accordance with its terms.

5. The Master Indenture has been duly authorized, executed and delivered by the Members of the Obligated Group and, assuming due authorization, execution and delivery thereof by the Master Trustee, is a valid, binding and enforceable agreement in accordance with its terms.

6. The Series 2008A Bonds and the interest thereon do not constitute a debt of the Commonwealth of Virginia, or any political subdivision thereof, including Fairfax County, Virginia (the "County"), or a pledge of the faith and credit of the Commonwealth of Virginia, or any political subdivision thereof, including the County, but are payable solely from the revenues and funds assigned to the Bond Trustee or otherwise pledged therefor from loan repayments and from any other revenue derived from Inova Health Care and Inova Alexandria Hospital and pledged therefor, and neither the Commonwealth of Virginia, nor any political subdivision thereof, including the County or the Authority, is obligated to pay the Series 2008A Bonds or the interest thereon or other costs incident thereto except from the special funds derived from Inova Health Care and Inova Alexandria Hospital and pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth of Virginia, or any political subdivision thereof, including the County, is pledged to the payment of the principal of the Series 2008A Bonds or the interest thereon or other costs incident thereto. The Authority has no taxing power.

7. Interest on the Series 2008A Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the “Code”)), interest on the Series 2008A Bonds must be included in computing adjusted current earnings.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2008A Bonds.

This opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents our judgment as to the proper treatment of interest on the Series 2008A Bonds for federal income tax purposes. This opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the “IRS”). The Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital have covenanted, however, to comply with the requirements of the Code.

In delivering this opinion, we are relying upon certifications of representatives of the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare, Loudoun Hospital and other parties as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2008A Bonds in order for interest on the Series 2008A Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that each of Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2008A Bonds and the use of the property financed or refinanced by the Series 2008A Bonds, limitations on the source of the payment of and the security for the Series 2008A Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2008A Bonds to the United States Treasury. The Trust Agreements, the Loan Agreements and the Tax Certificate and Agreement, dated as of the date of issuance of the Series 2008 Bonds (the “Tax Agreement”), among the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital, contain covenants (the “Covenants”) under which the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital have agreed to comply with such requirements. Failure by the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital

to comply with their respective Covenants could cause interest on the Series 2008A Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2008A Bonds from becoming includable in gross income for Federal income tax purposes. Compliance by the Authority with its respective Covenants does not require the Authority to make any financial contribution for which it does not receive funds from Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital.

Certain requirements and procedures contained, incorporated or referred to in the Trust Agreements, the Loan Agreements and the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Series 2008A Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

The interest on the Series 2008A Bonds, including any profit made on the sale thereof, is exempt from all taxation by the Commonwealth of Virginia or any political subdivision thereof. Other than as described herein, we express no opinion regarding (i) other Virginia tax consequences arising with respect to the Series 2008A Bonds or (ii) any consequences arising with respect to the Series 2008A Bonds under the tax laws of any state or local jurisdiction other than Virginia.

The enforceability of the Master Indenture, Obligation No. 42, the Trust Agreement and the Loan Agreement and the obligations of the aforementioned parties with respect to such documents are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization and other laws affecting creditors' rights generally. To the extent that the remedies under the Master Indenture, Obligation No. 42, the Trust Agreement and the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

Respectfully submitted,

[To be signed "McGuireWoods LLP"]



[Proposed Form of Opinion of Bond Counsel
for Series 2008B Bonds]

April __, 2008

Industrial Development Authority of
Fairfax County, Virginia

We have examined a record of the proceedings relating to the issuance of \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008B, dated the date of their original issuance (the “Series 2008B Bonds”), of the Industrial Development Authority of Fairfax County, Virginia (the “Authority”). The Series 2008B Bonds are issued under and pursuant to Chapter 49, Title 15.2 of the Code of Virginia, 1950, as amended, and a Trust Agreement, dated as of April 1, 2008 (the “Trust Agreement”), between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”), for the purpose of providing funds, together with other available funds, to (i) refund the Prior Bonds (as described in the Trust Agreement) and (ii) pay certain expenses incurred in connection with the issuance of the Series 2008B Bonds.

The Series 2008B Bonds bear interest from the original issuance date thereof initially at a fixed, term rate, and are subject to redemption prior to their maturity in the manner and upon the terms and conditions set forth therein and in the Trust Agreement. The Series 2008B Bonds are issuable in fully registered form in denominations that vary according to the interest mode in which the Series 2008B Bonds may be from time to time. The Series 2008B Bonds can be converted from one interest mode to a different interest mode upon compliance with the terms of the Trust Agreement.

The Authority will lend the proceeds of the Series 2008B Bonds to Inova Health System Foundation (“Inova”), Loudoun Healthcare, Inc. (“Loudoun Healthcare”) and Loudoun Hospital Center (“Loudoun Hospital”) pursuant to a Loan Agreement, dated as of April 1, 2008 (the “Loan Agreement”), among the Authority, Inova, Loudoun Healthcare and Loudoun Hospital. The Series 2008B Bonds are secured by, among other things, payments to be made by Inova, Loudoun Healthcare and Loudoun Hospital on Obligation No. 43, dated the date of its original issuance (“Obligation No. 43”), issued by Inova, Loudoun Healthcare and Loudoun Hospital under the Amended and Restated Master Trust Indenture, dated as of April 1, 2008 (the “Master Trust Indenture”), among Inova Health Care Services (“Inova Health Care”), Inova, Loudoun Healthcare, Loudoun Hospital, Inova Health System Services (“Services”), Inova Alexandria

Hospital (“Inova Alexandria Hospital”), Inova Alexandria Health Services Corporation (“Alexandria Health Services” and, together with Inova Health Care, Inova, Services, Inova Alexandria Hospital, Alexandria Health Services, Loudoun Hospital and Loudoun Healthcare, the “Members of the Obligated Group”) and U.S. Bank National Association, as Master Trustee (the “Master Trustee”), which amends and restates the First Amended and Restated Master Trust Indenture, dated as of October 1, 1985 (the “1985 Master Indenture”), by and among Sovran Bank, N.A. (a predecessor trustee to the Master Trustee), Inova Health Care, Inova, certain other entities which have subsequently withdrawn from the Obligated Group, as defined in the 1985 Master Indenture, and Services, Alexandria Hospital, Alexandria Health Services, Loudoun Healthcare and Loudoun Hospital, which subsequently joined the Obligated Group. Obligation No. 43 is being delivered to the Bond Trustee as evidence of the obligation of Inova, Loudoun Healthcare and Loudoun Hospital to repay the loan of the proceeds of the Series 2008B Bonds and as security for the payment of the Series 2008B Bonds. The Master Trust Indenture, as supplemented, is hereinafter referred to as the “Master Indenture”. Obligation No. 43 is an unsecured, joint and several, general obligation of each Member of the Obligated Group.

Simultaneously with the issuance of the Series 2008B Bonds, the Authority is issuing its \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008A (the “Series 2008A Bonds”) and its \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C (the “Series 2008C Bonds” and, together with the Series 2008A Bonds and the Series 2008B Bonds, the “Series 2008 Bonds”). The Series 2008A Bonds are being issued pursuant to a Trust Agreement, dated as of April 1, 2008 (the “Series 2008A Trust Agreement”), between the Authority and U.S. Bank National Association, as bond trustee, and the Authority will lend the proceeds of the Series 2008A Bonds to Inova Health Care and Inova Alexandria Hospital pursuant to a Loan Agreement, dated as of April 1, 2008 (the “Series 2008A Loan Agreement”), among the Authority, Inova Health Care and Inova Alexandria Hospital. The Series 2008C Bonds are being issued pursuant to a Trust Agreement, dated as of April 1, 2008 (the “Series 2008C Trust Agreement”), between the Authority and U.S. Bank National Association, as bond trustee, and the Authority will lend the proceeds of the Series 2008C Bonds to Inova Health Care pursuant to a Loan Agreement, dated as of April 1, 2008 (the “Series 2008C Loan Agreement”), between the Authority and Inova Health Care. The Trust Agreement, the Series 2008A Trust Agreement and the Series 2008C Trust Agreement are hereinafter collectively referred to as the “Trust Agreements.” The Loan Agreement, the Series 2008A Loan Agreement, and the Series 2008C Loan Agreement are hereinafter collectively referred to as the “Loan Agreements.”

In our capacity as Bond Counsel, we have examined such documents, records of the Authority and the Members of the Obligated Group and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Trust Agreements, the Loan Agreements, Obligation No. 43 and the Master Indenture. Our opinions regarding the authority of and actions by the Authority are based upon direct inquiries by us, examination of a certified copy of the proceedings of the Authority relating to the authorization and issuance of the Series 2008B Bonds and the opinion of counsel

for the Authority of even date herewith as to the authority, procedures and actions of the Authority in connection with the authorization and issuance of the Series 2008B Bonds.

We have also examined one of the Series 2008B Bonds as executed and authenticated.

Based upon such examination, we are of the opinion that, under current law:

1. The Series 2008B Bonds have been duly authorized executed and issued by the Authority.

2. The Trust Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid, binding and enforceable agreement in accordance with its terms.

3. The Series 2008B Bonds are valid and binding limited obligations of the Authority payable in accordance with their terms from payments to be made by Inova, Loudoun Healthcare and Loudoun Hospital pursuant to the Loan Agreement and Obligation No. 43, certain funds held by the Bond Trustee under the Trust Agreement and money attributable to the proceeds of the Series 2008B Bonds and the income from the investment thereof and, under certain circumstances, proceeds of casualty insurance, condemnation awards and remedial action taken pursuant to the Master Indenture, the Loan Agreement and the Trust Agreement, and are entitled to the benefit and security of the Trust Agreement.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority, Inova, Loudoun Healthcare and Loudoun Hospital and is a valid, binding and enforceable agreement in accordance with its terms.

5. The Master Indenture has been duly authorized, executed and delivered by the Members of the Obligated Group and, assuming due authorization, execution and delivery thereof by the Master Trustee, is a valid, binding and enforceable agreement in accordance with its terms.

6. The Series 2008B Bonds and the interest thereon do not constitute a debt of the Commonwealth of Virginia, or any political subdivision thereof, including Fairfax County, Virginia (the "County"), or a pledge of the faith and credit of the Commonwealth of Virginia, or any political subdivision thereof, including the County, but are payable solely from the revenues and funds assigned to the Bond Trustee or otherwise pledged therefor from loan repayments and from any other revenue derived from Inova, Loudoun Healthcare and Loudoun Hospital and pledged therefor, and neither the Commonwealth of Virginia, nor any political subdivision thereof, including the County or the Authority, is obligated to pay the Series 2008B Bonds or the interest thereon or other costs incident thereto except from the special funds derived from Inova, Loudoun Healthcare and Loudoun Hospital and pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth of Virginia, or any political subdivision thereof, including the County, is pledged to the payment of the principal of the Series 2008B Bonds or the interest thereon or other costs incident thereto. The Authority has no taxing power.

7. Interest on the Series 2008B Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the “Code”)), interest on the Series 2008B Bonds must be included in computing adjusted current earnings.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2008B Bonds.

This opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents our judgment as to the proper treatment of interest on the Series 2008B Bonds for federal income tax purposes. This opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the “IRS”). The Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital have covenanted, however, to comply with the requirements of the Code.

In delivering this opinion, we are relying upon certifications of representatives of the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare, Loudoun Hospital and other parties as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2008B Bonds in order for interest on the Series 2008B Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that each of Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2008B Bonds and the use of the property financed or refinanced by the Series 2008B Bonds, limitations on the source of the payment of and the security for the Series 2008B Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2008B Bonds to the United States Treasury. The Trust Agreements, the Loan Agreements and the Tax Certificate and Agreement, dated as of the date of issuance of the Series 2008 Bonds (the “Tax Agreement”), among the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital, contain covenants (the “Covenants”) under which the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital have agreed to comply with such requirements. Failure by the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital

to comply with their respective Covenants could cause interest on the Series 2008B Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2008B Bonds from becoming includable in gross income for Federal income tax purposes. Compliance by the Authority with its respective Covenants does not require the Authority to make any financial contribution for which it does not receive funds from Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital.

Certain requirements and procedures contained, incorporated or referred to in the Trust Agreements, the Loan Agreements and the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Series 2008B Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

The interest on the Series 2008B Bonds, including any profit made on the sale thereof, is exempt from all taxation by the Commonwealth of Virginia or any political subdivision thereof. Other than as described herein, we express no opinion regarding (i) other Virginia tax consequences arising with respect to the Series 2008B Bonds or (ii) any consequences arising with respect to the Series 2008B Bonds under the tax laws of any state or local jurisdiction other than Virginia.

The enforceability of the Master Indenture, Obligation No. 43, the Trust Agreement and the Loan Agreement and the obligations of the aforementioned parties with respect to such documents are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization and other laws affecting creditors' rights generally. To the extent that the remedies under the Master Indenture, Obligation No. 43, the Trust Agreement and the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

Respectfully submitted,

[To be signed "McGuireWoods LLP"]



[Proposed Form of Opinion of Bond Counsel
for Series 2008C Bonds]

April __, 2008

Industrial Development Authority of
Fairfax County, Virginia

We have examined a record of the proceedings relating to the issuance of \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C, dated the date of their original issuance (the “Series 2008C Bonds”), of the Industrial Development Authority of Fairfax County, Virginia (the “Authority”). The Series 2008C Bonds are issued under and pursuant to Chapter 49, Title 15.2 of the Code of Virginia, 1950, as amended, and a Trust Agreement, dated as of April 1, 2008 (the “Trust Agreement”), between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”), for the purpose of providing funds, together with other available funds, to (i) refund the Prior Bonds (as described in the Trust Agreement) and (ii) pay certain expenses incurred in connection with the issuance of the Series 2008C Bonds.

The Series 2008C Bonds bear interest from the original issuance date thereof initially at a fixed, term rate, and are subject to redemption prior to their maturity in the manner and upon the terms and conditions set forth therein and in the Trust Agreement. The Series 2008C Bonds are issuable in fully registered form in denominations that vary according to the interest mode in which the Series 2008C Bonds may be from time to time. The Series 2008C Bonds can be converted from one interest mode to a different interest mode upon compliance with the terms of the Trust Agreement.

The Authority will lend the proceeds of the Series 2008C Bonds to Inova Health Care Services (“Inova Health Care”) pursuant to a Loan Agreement, dated as of April 1, 2008 (the “Loan Agreement”), between the Authority and Inova Health Care. The Series 2008C Bonds are secured by, among other things, payments to be made by Inova Health Care on Obligation No. 44, dated the date of its original issuance (“Obligation No. 44”), issued by Inova Health Care under the Amended and Restated Master Trust Indenture, dated as of April 1, 2008 (the “Master Trust Indenture”), among Inova Health Care, Inova Health System Foundation (“Inova”), Inova Health System Services (“Services”), Inova Alexandria Hospital (“Inova Alexandria Hospital”), Inova Alexandria Health Services Corporation (“Alexandria Health Services”), Loudoun Healthcare, Inc. (“Loudoun Healthcare”), Loudoun Hospital Center (“Loudoun Hospital” and,

together with Inova Health Care, Inova, Services, Inova Alexandria Hospital, Alexandria Health Services and Loudoun Healthcare, the “Members of the Obligated Group”) and U.S. Bank National Association, as Master Trustee (the “Master Trustee”), which amends and restates the First Amended and Restated Master Trust Indenture, dated as of October 1, 1985 (the “1985 Master Indenture”), by and among Sovran Bank, N.A. (a predecessor trustee to the Master Trustee), Inova Health Care, Inova, certain other entities which have subsequently withdrawn from the Obligated Group, as defined in the 1985 Master Indenture, and Services, Alexandria Hospital, Alexandria Health Services, Loudoun Healthcare and Loudoun Hospital, which subsequently joined the Obligated Group. Obligation No. 44 is being delivered to the Bond Trustee as evidence of the obligation of Inova Health Care to repay the loan of the proceeds of the Series 2008C Bonds and as security for the payment of the Series 2008C Bonds. The Master Trust Indenture, as supplemented, is hereinafter referred to as the “Master Indenture”. Obligation No. 44 is an unsecured, joint and several, general obligation of each Member of the Obligated Group.

Simultaneously with the issuance of the Series 2008C Bonds, the Authority is issuing its \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008A (the “Series 2008A Bonds”) and its \$_____ Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008B (the “Series 2008B Bonds” and, together with the Series 2008A Bonds and the Series 2008C Bonds, the “Series 2008 Bonds”). The Series 2008A Bonds are being issued pursuant to a Trust Agreement, dated as of April 1, 2008 (the “Series 2008A Trust Agreement”), between the Authority and U.S. Bank National Association, as bond trustee, and the Authority will lend the proceeds of the Series 2008A Bonds to Inova Health Care and Inova Alexandria Hospital pursuant to a Loan Agreement, dated as of April 1, 2008 (the “Series 2008A Loan Agreement”), among the Authority, Inova Health Care and Inova Alexandria Hospital. The Series 2008B Bonds are being issued pursuant to a Trust Agreement, dated as of April 1, 2008 (the “Series 2008B Trust Agreement”), between the Authority and U.S. Bank National Association, as bond trustee, and the Authority will lend the proceeds of the Series 2008B Bonds to Inova, Loudoun Healthcare and Loudoun Hospital pursuant to a Loan Agreement, dated as of April 1, 2008 (the “Series 2008B Loan Agreement”), among the Authority, Inova, Loudoun Healthcare and Loudoun Hospital. The Trust Agreement, the Series 2008A Trust Agreement and the Series 2008B Trust Agreement are hereinafter collectively referred to as the “Trust Agreements.” The Loan Agreement, the Series 2008A Loan Agreement, and the Series 2008B Loan Agreement are hereinafter collectively referred to as the “Loan Agreements.”

In our capacity as Bond Counsel, we have examined such documents, records of the Authority and the Members of the Obligated Group and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Trust Agreements, the Loan Agreements, Obligation No. 44 and the Master Indenture. Our opinions regarding the authority of and actions by the Authority are based upon direct inquiries by us, examination of a certified copy of the proceedings of the Authority relating to the authorization and issuance of the Series 2008C Bonds and the opinion of counsel

for the Authority of even date herewith as to the authority, procedures and actions of the Authority in connection with the authorization and issuance of the Series 2008C Bonds.

We have also examined one of the Series 2008C Bonds as executed and authenticated.

Based upon such examination, we are of the opinion that, under current law:

1. The Series 2008C Bonds have been duly authorized executed and issued by the Authority.

2. The Trust Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid, binding and enforceable agreement in accordance with its terms.

3. The Series 2008C Bonds are valid and binding limited obligations of the Authority payable in accordance with their terms from payments to be made by Inova Health Care pursuant to the Loan Agreement and Obligation No. 44, certain funds held by the Bond Trustee under the Trust Agreement and money attributable to the proceeds of the Series 2008C Bonds and the income from the investment thereof and, under certain circumstances, proceeds of casualty insurance, condemnation awards and remedial action taken pursuant to the Master Indenture, the Loan Agreement and the Trust Agreement, and are entitled to the benefit and security of the Trust Agreement.

4. The Loan Agreement has been duly authorized, executed and delivered by the Authority and Inova Health Care and is a valid, binding and enforceable agreement in accordance with its terms.

5. The Master Indenture has been duly authorized, executed and delivered by the Members of the Obligated Group and, assuming due authorization, execution and delivery thereof by the Master Trustee, is a valid, binding and enforceable agreement in accordance with its terms.

6. The Series 2008C Bonds and the interest thereon do not constitute a debt of the Commonwealth of Virginia, or any political subdivision thereof, including Fairfax County, Virginia (the "County"), or a pledge of the faith and credit of the Commonwealth of Virginia, or any political subdivision thereof, including the County, but are payable solely from the revenues and funds assigned to the Bond Trustee or otherwise pledged therefor from loan repayments and from any other revenue derived from Inova Health Care and pledged therefor, and neither the Commonwealth of Virginia, nor any political subdivision thereof, including the County or the Authority, is obligated to pay the Series 2008C Bonds or the interest thereon or other costs incident thereto except from the special funds derived from Inova Health Care and pledged therefor, and neither the faith and credit nor the taxing power of the Commonwealth of Virginia, or any political subdivision thereof, including the County, is pledged to the payment of the principal of the Series 2008C Bonds or the interest thereon or other costs incident thereto. The Authority has no taxing power.

7. Interest on the Series 2008C Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Internal Revenue Code of 1986, as amended (the “Code”)), interest on the Series 2008C Bonds must be included in computing adjusted current earnings.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2008C Bonds.

This opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents our judgment as to the proper treatment of interest on the Series 2008C Bonds for federal income tax purposes. This opinion does not contain or provide any opinion or assurance regarding the future activities of the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the “IRS”). The Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital have covenanted, however, to comply with the requirements of the Code.

In delivering this opinion, we are relying upon certifications of representatives of the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare, Loudoun Hospital and other parties as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Series 2008C Bonds in order for interest on the Series 2008C Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, the requirement that each of Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital maintain its status as an organization described in Section 501(c)(3) of the Code, restrictions on the use, expenditure and investment of the proceeds of the Series 2008C Bonds and the use of the property financed or refinanced by the Series 2008C Bonds, limitations on the source of the payment of and the security for the Series 2008C Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the Series 2008C Bonds to the United States Treasury. The Trust Agreements, the Loan Agreements and the Tax Certificate and Agreement, dated as of the date of issuance of the Series 2008 Bonds (the “Tax Agreement”), among the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital, contain covenants (the “Covenants”) under which the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare and Loudoun Hospital have agreed to comply with such requirements. Failure by the Authority, Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital

to comply with their respective Covenants could cause interest on the Series 2008C Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Series 2008C Bonds from becoming includable in gross income for Federal income tax purposes. Compliance by the Authority with its respective Covenants does not require the Authority to make any financial contribution for which it does not receive funds from Inova Health Care, Inova Alexandria Hospital, Inova, Loudoun Healthcare or Loudoun Hospital.

Certain requirements and procedures contained, incorporated or referred to in the Trust Agreements, the Loan Agreements and the Tax Agreement, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion concerning any effect on the excludability of interest on the Series 2008C Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than this firm.

The interest on the Series 2008C Bonds, including any profit made on the sale thereof, is exempt from all taxation by the Commonwealth of Virginia or any political subdivision thereof. Other than as described herein, we express no opinion regarding (i) other Virginia tax consequences arising with respect to the Series 2008C Bonds or (ii) any consequences arising with respect to the Series 2008C Bonds under the tax laws of any state or local jurisdiction other than Virginia.

The enforceability of the Master Indenture, Obligation No. 44, the Trust Agreement and the Loan Agreement and the obligations of the aforementioned parties with respect to such documents are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization and other laws affecting creditors' rights generally. To the extent that the remedies under the Master Indenture, Obligation No. 44, the Trust Agreement and the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

Respectfully submitted,

[To be signed "McGuireWoods LLP"]

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APPENDIX E

FORM OF AGREEMENT TO PROVIDE CONTINUING DISCLOSURE

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AGREEMENT TO PROVIDE CONTINUING DISCLOSURE

THIS AGREEMENT TO PROVIDE CONTINUING DISCLOSURE, dated as of April 1, 2008 (the “Disclosure Agreement”), is made by Inova Health System Foundation (“Inova”), Inova Health Care Services (the “Corporation”), Inova Alexandria Hospital (“IAH”), Inova Alexandria Health Services Corporation (“Alexandria Services”), Loudoun Healthcare, Inc. (“Loudoun”), Loudoun Hospital Center (“Loudoun Hospital”) and Inova Health System Services (“Services”), each a Member of the Obligated Group (as defined below).

The Members of the Obligated Group, in consideration of the mutual covenants herein contained and other good and lawful consideration, hereby agree for the sole and exclusive benefit of the Holders as follows:

Section 1. Definitions. Capitalized terms used but not defined herein as follows shall have the meaning ascribed to them in the Master Indenture.

“Annual Information” shall mean the information specified in Section 3.

“Bond Trustee” shall mean U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America and having a corporate trust office in Richmond, Virginia.

“Bonds” shall mean collectively, the \$_____ Industrial Development Authority of Fairfax County, Virginia, Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008A, the \$_____ Industrial Development Authority of Fairfax County, Virginia, Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008B, and the \$_____ Industrial Development Authority of Fairfax County, Virginia, Health Care Revenue Refunding Bonds (Inova Health System Project), Series 2008C.

“Central Post Office” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with Rule 15c2-12, make filings required by this Disclosure Agreement.

“GAAP” shall mean generally accepted accounting principles as in effect from time to time in the United States.

“GAAS” shall mean generally accepted auditing standards as in effect from time to time in the United States.

“Holder” shall mean any registered owner of Bonds and, if registered in the name of Cede & Co., through The Depository Trust Company, New York, New York (“DTC”), any Beneficial Owner (as such term is used by DTC to define a holder other than a nominee) of the Bonds, unless Rule 15c2-12, or an authoritative interpretation thereof by the Securities and Exchange Commission or its staff, does not require this Disclosure Agreement to be for the benefit of such Beneficial Owners.

“Indenture” shall mean, collectively, the Trust Agreement, dated as of April 1, 2008, between the Industrial Development Authority of Fairfax County, Virginia (the “Authority”), and the Bond Trustee, pursuant to which the Series 2008A Bonds were issued, the Trust Agreement, dated as of April 1, 2008, between the Authority and the Bond Trustee, pursuant to

which the Series 2008B Bonds were issued, and the Trust Agreement, dated as of April 1, 2008, between the Authority and the Bond Trustee, pursuant to which the Series 2008C Bonds were issued.

“Master Indenture” shall mean the Amended and Restated Master Trust Indenture, dated as of April 1, 2008, by and among the Members of the Obligated Group and U.S. Bank National Association, as master trustee, including any amendments or supplements thereto.

“Member of the Obligated Group” means Member of the Obligated Group as defined in Section 1.01 of the Master Indenture.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“NRMSIR” shall mean each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 and recognized by the Securities and Exchange Commission, from time to time, for purposes of Rule 15c2-12.

“Obligated Group” means Obligated Group as defined in Section 1.01 of the Master Indenture.

“Official Statement” means the Official Statement, dated April __, 2008, relating to the Bonds.

“Person” means Person as defined in Section 1.01 of the Master Indenture.

“Rating Agency” means Standard & Poor’s Ratings Services, Moody’s Investors Service, Inc. or any other nationally recognized rating service which has assigned a rating on the Bonds.

“Rule 15c2-12” means Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Disclosure Agreement.

“SID” means any Virginia State Information Depository, if and to the extent one is established and is in existence and operating as a state information depository within the meaning of Rule 15c2-12. There currently is no SID in the State of Virginia.

Section 2. Obligations to Provide Continuing Disclosure.

(i) Obligations of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services.

(a) Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services hereby undertake and hereby covenant to cause each Member of the Obligated Group, to undertake, for the benefit of Holders of the Bonds, to provide, no later than 150 days after the end of each of its fiscal years, commencing with the fiscal year ending December 31, 2008, for delivery to each NRMSIR and to the SID, if any, the Annual Information relating to such fiscal year, together with audited financial statements of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services and any other Member of the Obligated Group for such fiscal year; provided, that if audited financial statements are not then available, unaudited financial statements shall be provided and such audited financial statements shall be delivered to each NRMSIR and to the SID, if any, when they become available.

(b) In addition, Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services shall immediately notify each NRMSIR, the SID, if any, and the MSRB of the occurrence of any of the eleven events listed below with respect to the Bonds, if material, upon becoming aware of the occurrence of any such event:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancement reflecting financial difficulties;
- (5) a substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) modification to rights of Holders of the Bonds;
- (8) bond calls other than mandatory sinking fund redemptions;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds; and
- (11) rating changes.

(c) Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services shall immediately notify each NRMSIR, the SID, if any, and the MSRB of any failure to file the Annual Report by the date required in Section 2(a).

(ii) Termination of Disclosure Obligation. The obligations of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services and any Member of the Obligated Group pursuant to Section 2(i)(a) and 2(i)(b) hereof may be terminated if such person is no longer an “obligated person” as defined in Rule 15c2-12. Upon any such termination, notice thereof shall be provided to each NRMSIR, the SID, if any, and the MSRB.

(iii) Other Information. Nothing herein shall be deemed to prevent Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital, Services or any Member of the Obligated Group from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital, Services or any Member of the Obligated Group should disseminate any such additional information, then Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital, Services or such Member of the Obligated Group shall have no obligation to update such information or include it in any future materials disseminated hereunder.

Section 3. Annual Information.

(i) Specified Information. The Annual Information shall consist of the following:

(a) operating data and financial information which includes: (1) utilization data of the type included in the Official Statement in “Appendix A—Selected Operational and Utilization Information”; (2) a summary of annual revenue and expenses and a summary of liquidity and capitalization of the type included in the Official Statement in “Appendix A—Results of Operations”; and (3) information on certain other matters included in the Official Statement in

“Appendix A—“Long-Term Debt and Guaranteed Indebtedness” and “—Pending Litigation and other Contingencies,” unless such information is included in the audited financial statements of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services;

(ii) Cross Reference. All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with each NRMSIR, the SID, if any, and, if the document is an official statement, the MSRB.

(iii) Providers of Liquidity and Credit Support. If known to Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services, the required Annual Information shall include the name, address and telephone number of a place where current information regarding each provider of credit or liquidity support with respect to the Bonds, if any, may be obtained.

(iv) Informational Categories. The requirements contained in this Disclosure Agreement under Section 3(i) are intended to set forth a general description of the type of financial information and operating data to be provided; such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of Section 3(i) call for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided.

Section 4. Financial Statements.

Annual financial statements of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services and any Member of the Obligated Group for each fiscal year shall be prepared in accordance with GAAP unless applicable accounting principles are otherwise disclosed in the Official Statement and audited by an independent accounting firm in accordance with GAAS, but only if audited financial statements are otherwise available or required under the Master Trust Indenture to be provided for such fiscal year.

Section 5. Remedies.

If Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services should fail to comply with any provision of this Disclosure Agreement, then any Holder of Bonds (including Beneficial Owners), may enforce, for the equal benefit and protection of all Holders similarly situated, this Disclosure Agreement against Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services and may compel Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services to perform and carry out their duties under this Disclosure Agreement; provided, that the sole and exclusive remedy for breach of this Disclosure Agreement shall be an action to compel specific performance of the obligations of such party hereunder, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Failure by any of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services to perform its obligations hereunder shall not constitute an Event of Default under the Master Indenture, the Indenture or any other agreement executed and delivered in connection with the issuance of the Bonds.

Section 6. Parties in Interest.

This Disclosure Agreement is executed and delivered solely for the benefit of the Holders of the Bonds. No other person (other than the Holders) shall have any right to enforce, the provisions hereof or any other rights hereunder.

Section 7. Amendments.

Without the consent of any Holders of Bonds, Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services, at any time and from time to time may amend or change this Disclosure Agreement for any of the following purposes:

(i) to comply with or conform to any changes in Rule 15c2-12 or any formal authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional);

(ii) to add or change a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services, and the assumption by any such successor of the covenants of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services hereunder;

(iv) to add to the covenants of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services, for the benefit of the Holders, or to surrender any right or power herein conferred upon Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital or Services;

(v) for any purpose for which, and subject to the conditions pursuant to which, amendments may be made under Rule 15c2-12, as amended or modified from time to time, or any formal authoritative interpretations thereof by the Securities and Exchange Commission or its staff; or

(vi) for any other purpose, if (a) the amendment is made in connection with a change in circumstances that arise from a change in legal requirements, change in law, or change in the identity or nature, or status of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital, Services or the Obligated Group or any type of business or affairs conducted by Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital, Services or the Obligated Group; (b) the undertakings set forth herein, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the primary offering of the Bonds, after taking into account any amendments, or formal authoritative interpretations by the Securities and Exchange Commission of Rule 15c2-12, as well as any change in circumstances; and (c) the amendment does not materially impair the interests of the Holders, as determined by nationally recognized bond counsel.

Annual Information for any fiscal year containing any amended operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such amendment and the impact of the change on the type of operating data or financial information in the Annual Information being provided for such fiscal year.

If a change in accounting principles is included in any such amendment, such Annual Information shall present a comparison between the financial statements or information prepared

on the basis of the amended accounting principles and those prepared on the basis of the former accounting principles for the fiscal year in which such change is made. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services to meet their obligations. To the extent reasonably feasible, the comparison also shall be quantitative. A notice of the change in accounting principles shall be sent to each NRMSIR or to the MSRB, and to the SID, if any.

Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services agree that they will not permit the addition of another Person to the Obligated Group unless such future Member of the Obligated Group consents in writing to comply with all of the provisions as set forth herein.

Section 8. Central Post Office.

Inova, the Corporation, IAH, Alexandria Services, Loudoun, Loudoun Hospital and Services and any Member of the Obligated Group each reserve the right, from time to time, to (i) appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Agreement, and discharge any such dissemination agent, with or without appointing a successor dissemination agent; and (ii) make any filing with a NRMSIR or the SID, if any, that is required by this Disclosure Agreement by submitting such filing information to the Central Post Office.

Section 9. Electronic Municipal Market Access System.

In the event the Securities and Exchange Commission requires the use of the MSRB's Electronic Municipal Market Access ("EMMA") system for continuing disclosure filings, this Disclosure Agreement shall be deemed amended to require all filings made hereunder to be made through the EMMA system.

Section 10. Termination.

This Disclosure Agreement shall remain in full force and effect until such time as all principal, redemption premium, if any, and interest on the Bonds shall have been paid in full or the Bonds shall have otherwise been paid or defeased pursuant to the Indenture; provided that in the event the Series 2008 Bonds are converted to an interest rate mode that qualifies for an exemption from Rule 15c2-12, including a conversion to the Weekly Interest Rate, the Disclosure Agreement may terminate if Inova so elects; provided, that if Rule 15c2-12 (or successor provision) shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then such information shall no longer be required to be provided hereunder; and provided further, that if and to the extent Rule 15c2-12 (or successor provision), or any provision thereof, shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of Rule 15c2-12 so declared, shall no longer be required to be provided hereunder.

Section 10. Governing Law.

THIS DISCLOSURE AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE COMMONWEALTH OF VIRGINIA DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW.

IN WITNESS WHEREOF, the undersigned have duly authorized, executed and delivered this Disclosure Agreement as of April 1, 2008.

INOVA HEALTH SYSTEM FOUNDATION
INOVA HEALTH CARE SERVICES
INOVA ALEXANDRIA HOSPITAL
INOVA ALEXANDRIA HEALTH SERVICES
CORPORATION
INOVA HEALTH SYSTEM SERVICES
LOUDON HEALTHCARE, INC.
LOUDON HOSPITAL CENTER

By: _____
Richard C. Magenheimer
Chief Financial Officer

[Signature page to Agreement to Provide Continuing Disclosure]



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SYSTEM**



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