NEW ISSUE — BOOK-ENTRY ONLY **Ratings†**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$296,055,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Refunding Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)

STANFORD HOSPITAL & CLINICS
Stanford University Medical Center

$149,345,000	$146,710,000
2010 Series A	2010 Series B

Dated: Date of Delivery **Due:** As set forth on inside cover hereof

The 2010 Series A and 2010 Series B Bonds (collectively, the "Bonds" and each a "Series" of Bonds) are being issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form (without physical certificates) in denominations of $5,000 and any integral multiple thereof. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, (i) payments of the principal of and interest on the Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the Beneficial Owners, and (ii) all notices, including any notice of redemption, shall be mailed only to Cede & Co. See APPENDIX E – "BOOK-ENTRY SYSTEM" herein. Interest on the Bonds is payable on May 15 and November 15 of each year, commencing November 15, 2010.

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and Loan Agreement, as described herein, and will be payable from Loan Repayments made by Stanford Hospital and Clinics (the "Corporation") under the Loan Agreement and from certain funds held under the Indenture. The obligation of the Corporation to make such payments is evidenced and secured by the issuance of Obligation No. 28 under the Master Indenture, described herein, whereunder the Corporation and any future members of the Obligated Group (collectively, the "Obligated Group") jointly and severally are obligated to make payments on Obligation No. 28 in an amount sufficient to pay the principal of and interest on the Bonds when due. Currently, the Corporation is the sole member of the Obligated Group.

The Bonds are subject to mandatory, optional and special optional redemption prior to maturity under certain circumstances described herein.

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 28 AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY SUCH POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE BONDS OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if received by the Underwriters, subject to prior sale, to the withdrawal or modification of the offer without notice, and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Corporation by its counsel, Ropes & Gray LLP, San Francisco, California, for the Authority by its counsel, the Attorney General of the State of California, and for the Underwriters by their counsel, Sidley Austin LLP, San Francisco, California. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC, on or about June 16, 2010.

HONORABLE BILL LOCKYER
Treasurer of the State of California

MORGAN STANLEY

J.P. MORGAN

GOLDMAN, SACHS & CO.

June 4, 2010

† See "Ratings."

$296,055,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Refunding Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2010 Series A and 2010 Series B

$62,290,000 2010 Series A Serial Bonds

Maturity Date (November 15)	Principal Amount	Interest Rate	Yield	CUSIP†
2011	$4,485,000	4.00%	1.05%	13033LHS9
2012	4,660,000	5.00	1.45	13033LHT7
2013	4,895,000	4.00	1.86	13033LHU4
2014	5,085,000	5.00	2.25	13033LHV2
2015	5,345,000	4.00	2.61	13033LHW0
2016	5,560,000	5.00	3.00	13033LHX8
2017	5,840,000	5.00	3.28	13033LHY6
2018	6,130,000	5.00	3.47	13033LHZ3
2019	6,435,000	5.00	3.67	13033LJA6
2020	6,760,000	5.00	3.84	13033LJB4
2021	7,095,000	5.00	3.97‡	13033LJE8

$32,105,000 5.00% 2010 Series A Term Bond due November 15, 2025 Price to Yield 4.65%‡ CUSIP† 13033LJD0

$50,000,000 5.75% 2010 Series A Term Bond due November 15, 2031 Price to Yield 4.75%‡ CUSIP† 13033LJC2

$4,950,000 5.25% 2010 Series A Term Bond due November 15, 2031 Price to Yield 4.90%‡ CUSIP† 13033LJF5

$1,715,000 4.50% 2010 Series B Term Bond due November 15, 2025 Price to Yield 4.65% CUSIP† 13033LJJ7

$18,180,000 5.00% 2010 Series B Term Bond due November 15, 2025 Price to Yield 4.65%‡ CUSIP† 13033LJK4

$33,000,000 5.75% 2010 Series B Term Bond due November 15, 2031 Price to Yield 4.75%‡ CUSIP† 13033LJG3

$34,515,000 5.25% 2010 Series B Term Bond due November 15, 2031 Price to Yield 4.90%‡ CUSIP† 13033LJL2

$59,300,000 5.00% 2010 Series B Term Bond due November 15, 2036 Price to Yield 5.10% CUSIP† 13033LJH1

† A registered trademark of The American Bankers Association. CUSIP is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. Neither the Authority, the Corporation, nor the Underwriters assume any responsibility for the accuracy of such numbers.

‡ Priced to optional call date of November 15, 2020.

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein under the captions "THE AUTHORITY" and "LITIGATION—The Authority" has been furnished by the Authority, and the information relating to DTC and the book-entry system set forth herein under the caption "THE BONDS—General" and in Appendix E hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, the Corporation or the Underwriters. All other information set forth herein has been obtained from the Corporation and other sources (other than the Authority) that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale of the Bonds made hereunder, shall create under any circumstances any indication that there has been no change in the affairs of the Authority, DTC or the Corporation since the date hereof. This Official Statement is being provided to prospective investors in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THAT WHICH OTHERWISE MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements under the captions "THE PLAN OF FINANCE" and "BONDHOLDERS' RISKS" in the forepart of this Official Statement and the statements contained under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE" in APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS."

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

$296,055,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Refunding Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2010 Series A and 2010 Series B

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein or in Appendix C have the same meaning as in the Master Indenture or the Indenture (each as defined below). See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—Definitions of Certain Terms."

Purpose of this Official Statement

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of $296,055,000 aggregate principal amount of California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), consisting of 2010 Series A Bonds in the principal amount of $149,345,000 and 2010 Series B Bonds in the principal amount of $146,710,000 (each, a "Series of Bonds" and collectively, the "Bonds").

The proceeds of the Bonds, together with funds of the Corporation, will be used to refund certain outstanding debt obligations of Stanford Hospital and Clinics (the "Corporation"), currently outstanding in the aggregate principal amount of $309,490,000. See "THE PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Stanford Hospital and Clinics

The Corporation operates Stanford Hospital, a tertiary, quaternary and specialty teaching hospital (the "Hospital"), and the Stanford University clinics (the "Clinics"), which include primary, specialty and sub-specialty clinics, in which the medical faculty of the Stanford University School of Medicine provide clinical services. The Corporation serves as the principal teaching affiliate of the Stanford University School of Medicine with respect to providing primary and specialty health services to adults and operates its facilities to provide the clinical settings through which the Stanford University School of Medicine educates medical and graduate students, trains residents and clinical fellows, supports faculty clinicians and conducts medical and biological sciences research. The principal facilities of the Hospital and the Clinics are located on the campus of Stanford University adjacent to its School of Medicine and elsewhere in Palo Alto, California and in nearby communities.

For additional information concerning the Corporation, its facilities and operations, including certain financial and statistical data, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS."

The Corporation is solely responsible for the payment of principal of and interest on the Bonds. Neither Stanford University nor any legal entity other than the Corporation is obligated to make any such payments. Stanford University and the Corporation are not co-guarantors of the debt of each other, and each is separately rated by the rating agencies.

Plan of Finance

The Corporation intends to use the proceeds of the Bonds to redeem in full the California Health Facilities Financing Authority Revenue Bonds (UCSF-Stanford Health Care) 1998 Series B, currently outstanding in the aggregate principal amount of $159,490,000, and the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2003 Series B, 2003 Series C and 2003 Series D currently outstanding in the aggregate principal amount of $150,000,000. In a related offering on or about the date of issuance of the Bonds, the Corporation also plans to convert the interest rate on the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-1, currently outstanding in the aggregate principal amount of $70,500,000, to a new long term rate period that will remain in effect until the final maturity of such bonds. See "THE PLAN OF FINANCE" herein.

Security for the Bonds

The Bonds are limited obligations of the California Health Facilities Financing Authority (the "Authority"), secured under the provisions of that certain indenture, dated as of June 1, 2010 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bond Trustee"), and will be payable solely from payments (the "Loan Repayments") made by the Corporation under the Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Authority and the Corporation, from payments made by the Corporation on Obligation No. 28 (hereinafter defined), and from certain funds held under the Indenture. The amounts required to be paid under the Loan Agreement and Obligation No. 28 are required to be equal to debt service on all of the Bonds and other amounts specified therein. All capitalized terms used in this Official Statement and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture or the Master Indenture, as applicable. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS, DEFINITIONS OF CERTAIN TERMS."

The obligation of the Corporation under the Loan Agreement with respect to the Bonds will be further evidenced and secured by an obligation ("Obligation No. 28") to be issued under the Master Indenture of Trust, dated as of December 1, 1990 (as amended and supplemented, the "Master Indenture"), between the Corporation, formerly known as Stanford University Hospital, and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the "Master Trustee"), as supplemented and amended by the Supplemental Master Indenture for Obligation No. 28, dated as of June 1, 2010 ("Supplement No. 28"), between the Corporation and the Master Trustee. Obligation No. 28, the outstanding Obligations relating to other indebtedness and obligations of the Corporation (as described below) and any other Obligations issued in the future under the Master Indenture (each an "Obligation" and collectively, the "Obligations") will be secured by security interests in (i) the Gross Revenues of each Member of the Obligated Group and (ii) the moneys on deposit from time to time in the Gross Revenue Fund under the Master Indenture. Currently, the Corporation is the only Member of the Obligated Group created pursuant to the Master Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

The Corporation intends to amend and restate the Master Indenture through an Amended and Restated Master Indenture of Trust which will not go into effect until the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations outstanding under the Master Indenture; provided, however, that one provision of the Amended and Restated Master Indenture of Trust will not go into effect until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations outstanding. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Proposed Amended and Restated Master Indenture" herein.

Additional Indebtedness

No bonds other than the Bonds may be issued under the Indenture. However, as described below under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Corporation is permitted to incur additional indebtedness under the Master Indenture, subject to the financial tests and limitations set forth therein and described in Appendix C attached hereto. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS - MASTER INDENTURE—Covenants—Limitations on Additional Indebtedness."

For a description of certain events that are expected to require the incurrence of additional indebtedness of the Corporation, see "SERVICES, FACILITIES AND OPERATIONS—Long-Range Financial Plan and Additional Capital Needs" in APPENDIX A attached hereto.

Bondholders' Risks

There are risks associated with the purchase of the Bonds. See "BONDHOLDERS' RISKS" for a discussion of certain of these risks.

Availability of Documents

Copies of the Master Indenture, Supplement No. 28, the Indenture, the Loan Agreement, Obligation No. 28 and the Continuing Disclosure Agreement, each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the corporate offices of the Corporation or at the designated corporate trust office of the Bond Trustee.

THE AUTHORITY

General

The Authority is a public instrumentality of the State of California (the "State") organized and existing under and by virtue of the Act. The intent of the California legislature in enacting the Act was to provide financing to health facilities and to pass along to the consuming public all or part of any savings realized by a participating health institution (as defined in the Act) as a result of tax-exempt financing. Pursuant to the Act, the Authority is authorized to issue its revenue bonds for the purpose of financing (including reimbursing expenditures made or refinancing indebtedness incurred for such purpose) the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of health facilities operated by participating health institutions. The State Treasurer is authorized under the Act to sell such revenue bonds on behalf of the Authority.

Organization and Membership

The Act provides that the Authority shall consist of nine members, including the State Treasurer, who shall serve as Chairman, the State Controller, the Director of Finance and two members appointed by each of the Senate Rules Committee, the Speaker of the State Assembly and the Governor. The Chairman of the Authority appoints the Executive Director.

The current members of the Authority are:

BILL LOCKYER, ***State Treasurer, Chairman and Ex Officio Member of the Authority***. Residence: Hayward, California. Background: Mr. Lockyer completed his undergraduate study at the University of California, Berkeley, and earned a law degree from McGeorge School of Law in Sacramento while serving in the State Senate. He also holds a teaching credential from California State University, Hayward. As State Treasurer, Mr. Lockyer draws on leadership, management and policymaking skills developed over a public service career spanning more than three decades. Mr. Lockyer served for 25 years in the California Legislature, culminating his Capitol career with a stint as Senate President pro Tempore. He served eight years, from 1999-2006, as California Attorney General and left a lasting legacy. Among his landmark achievements as Attorney General, Mr. Lockyer revolutionized crime fighting in California by creating and maintaining the nation's most sophisticated DNA forensic laboratory, established the Megan's Law website and recovered billions of dollars for defrauded energy ratepayers, consumers and taxpayers.

JOHN CHIANG, ***State Controller and Ex Officio Member of the Authority***. Residence: Torrance, California. Background: Mr. Chiang graduated with honors from the University of South Florida with a degree in Finance, and received his law degree from the Georgetown University Law Center. As State Controller, he presides over 76 boards and commissions, including the Franchise Tax Board, the California Public Employees' Retirement System Board, and the California State Teachers' Retirement System Board. Prior to being elected State Controller,

he was elected to the Board of Equalization in 1998, leading with innovative taxpayer-friendly services like the State's free income tax return preparation service, ReadyReturn. Mr. Chiang's record of public service has been recognized with many awards and distinctions including the Award for Excellence by a Government Official from the Los Angeles County Bar Association.

ANA J. MATOSANTOS, ***State Director of Finance and Ex Officio Member of the Authority.*** Ms. Matosantos was appointed State Director of Finance in December 2009. Residence: Sacramento. Background: Ms. Matosantos earned a Bachelor of Arts degree in political science from Stanford University. Ms. Matosantos has served in the Department of Finance as chief deputy director since 2008. Prior to that, she served as deputy legislative secretary for health and human services and veterans affairs in the Office of the Governor from 2007 to 2008. From 2006 to 2007, Ms. Matosantos served as associate secretary for legislative affairs for the Health and Human Services Agency (HHS) and, from 2004 to 2006, she served as assistant secretary for program and fiscal affairs at HHS. Prior to that, she was a consultant to the Senate Committees on Health and Human Services and Budget and Fiscal Review from 1999 to 2004.

HARRY BISTRIN, ***Vice-Chairman***. Term expires March 31, 2012. Residence: Ukiah, California. Background: Bachelor of Arts degree in Business Administration from University of California at Berkeley; currently field representative for State Senate District No. 1; member of the Board of Directors, Northern California American Israel Political Action Committee; former member of the Board of Directors, former President and former Chairman of the Finance Committee of General Hospital in Eureka.

JUDITH N. FRANK, ***Member***. Term expires March 31, 2012. Residence: Santa Monica, California. Background: Masters degree in Finance from University of California at Los Angeles Anderson School of Management, Master of Science degree in City and Regional Planning from the University of Southern California, A.B. degree from the University of California at Berkeley and a California Real Estate Broker's License. Ms. Frank is the owner of Asset Strategies, a financial and real estate service firm, and currently serves as a consulting appointee to the State's Real Estate Enhancement Branch. In addition, Ms. Frank currently serves on the Los Angeles County Health Facilities Authority. Ms. Frank previously served on the California Park and Recreation Commission from 1992 to 2000.

OSCAR SABLAN, M.D., ***Member***. Term expires March 31, 2012. Residence: Firebaugh, California. Background: Board Certified in Internal Medicine, Doctor of Medicine from University of Hawaii John A. Burns School of Medicine, Bachelor of Arts in Biology, Saint Louis University. Dr. Sablan is co-owner of the Sablan Medical Clinic in Firebaugh, which he owns and operates with his wife, Dr. Marcia Sablan. Dr. Sablan currently serves as a Commissioner on the First 5 of Fresno County Commission, is a Trustee on the Firebaugh-Las Deltas Unified School District Board of Trustees and is an active member of the California School Board Association. Dr. Sablan is from the island of Saipan, a commonwealth of the United States located approximately 150 miles north of Guam.

RONALD JOSEPH, ***Member***. Term expires March 31, 2012. Residence: Sacramento, California. Background: Bachelor's degree in Government, California State University, Sacramento. Mr. Joseph currently manages RJAdvisors, a firm specializing in government consulting. From 2004 to 2006, Mr. Joseph served as Director of the California Department of General Services. From 1995 to 2004, he was the Executive Director of the Medical Board of California, and from 1991 to 1995 he was the Chief Deputy Director of the Department of Health Services. His service in California State Government previously included executive level assignments at the State Teachers retirement System and the Department of Economic Opportunity.

SUMI SOUSA, ***Member***. Term expired March 31, 2007, but Ms. Sousa will continue to serve until reappointed or the position otherwise is filled. Residence: Sacramento, California. Background: Ms. Sousa earned a bachelor's degree in History from the University of California, Los Angeles. She has specialized in state and local budget and policy issues since 1991. She currently serves as Special Assistant to the Speaker of the California State Assembly, where she is responsible for health policy and health budget issues. Ms. Sousa served as Executive Director of the California Health Facilities Financing Authority from March 1999 through March 2003. She previously served as special assistant to San Francisco Mayor Willie L. Brown, Jr., handling various budget assignments for the City and County of San Francisco. Ms. Sousa also was Deputy Director for Management & Finance to the San Francisco Public Administrator/Public Guardian. She served on the staff of the California

Revenue and Taxation Committee from 1992 to 1994 and served on the legislative staff of Assemblyman Phillip Isenberg and Senator Herschel Rosenthal.

JACK BUCKHORN, *Member.* Term expired March 31, 2010, but Mr. Buckhorn will continue to serve until reappointed or the position is otherwise filled. Residence: Hidden Valley Lake, California. Background: Mr. Buckhorn earned an associate of science degree from Santa Rosa Junior College. He currently serves as the Business Manager and Financial Secretary for the International Brotherhood of Electrical Workers Local Union 551. From 1989 to 1998, he was Training Director for the Redwood Empire Electrical Joint Apprenticeship and Training Committee. Mr. Buckhorn is currently the President of the California State Association of Electrical Workers; Secretary-Treasurer of the Sonoma, Mendocino and Lake Counties Building and Construction Trades Council; President of the North Bay Central Labor Council; a member of the Mendocino and Marin Counties Workforce Investment Boards; and a commissioner of the California Apprenticeship Council.

Executive Director. Barbara Liebert was appointed Executive Director July 2, 2007. Before then, Ms. Liebert served as general counsel to a Bay Area district hospital and its affiliates, advising them in all areas of health care law. Before starting her own firm in Sacramento, she held positions with Bell, Sheppard & Faria and the Bell Law Corporation, and she also served as staff counsel to the State Department of General Services. Ms. Liebert received her bachelor's degree in psychology from the University of California at Berkeley and her law degree from Santa Clara University.

Outstanding Indebtedness of the Authority

As of March 31, 2010, the Authority had issued obligations aggregating in excess of $24 billion and had outstanding obligations in the aggregate principal amount greater than $9 billion.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference.

General Description

The Bonds are being issued pursuant to the Indenture in the respective aggregate principal amounts set forth on the cover of this Official Statement. The Bonds will be delivered in fully registered form without coupons. The Bonds will be dated the date of delivery and will be payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts as set forth on the inside cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS—Book-Entry System."

The Bonds will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on November 15 and May 15 of each year (each, an "Interest Payment Date"), commencing November 15, 2010, to the person whose name appears on the bond registration books of the Bond Trustee as the Holder thereof as of the close of business on the Record Date (which will be the first day of the month, whether or not a Business Day, in which an Interest Payment Date occurs) for each Interest Payment Date (except with respect to interest in default, for which a special record date shall be established). So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM."

If the book-entry system for the Bonds is ever discontinued, payment of interest on the Bonds will be made by check mailed by first-class mail on each Interest Payment Date to each Holder as of the Record Date for such Interest Payment Date at its address as it appears on the bond registration books maintained by the Bond Trustee or,

at the written request of any Holder of at least one million dollars ($1,000,000) in aggregate principal amount of a Series of Bonds, submitted to the Bond Trustee on or before the Record Date for the applicable Interest Payment Date, by wire transfer in immediately available funds to an account within the United States designated by the Holder. Payment of the principal or redemption price of Bonds will then be payable upon presentation and surrender of the Bonds at the corporate trust office of the Bond Trustee.

Redemption

Special Redemption. The Bonds of each Series are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised upon Request of the Corporation, a copy of which Request shall be delivered to the Bond Trustee not less than 25 days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Bond Trustee), in whole or in part (and, if in part, in such amounts and maturities and of such Series as may be specified by the Corporation and in Authorized Denominations), on any date specified by the Corporation, from hazard insurance or condemnation proceeds received with respect to the facilities of the Corporation and deposited in the Special Redemption Account, at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

Optional Redemption. The Bonds of each Series are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised upon Request of the Corporation, a copy of which Request shall be delivered to the Bond Trustee not less than 25 days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Trustee), in whole or in part (and if in part, in such amounts and such maturities as may be specified by the Corporation and in Authorized Denominations, or, if the Corporation fails to specify such maturities, in inverse order of maturity) on any date on or after November 15, 2020, at a Redemption Price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest, if any, to the date fixed for redemption.

Sinking Account Redemption. The 2010 Series A Bonds maturing on November 15, 2025 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2022	$7,450,000
2023	7,820,000
2024	8,210,000
2025†	8,625,000

† Final Maturity.

The $50,000,000 2010 Series A Bonds maturing on November 15, 2031 and bearing CUSIP 13033LJC2 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2026	$8,320,000
2027	8,795,000
2028	9,295,000
2029	9,835,000
2030	6,645,000
2031†	7,110,000

† Final Maturity.

The $4,950,000 2010 Series A Bonds maturing on November 15, 2031 and bearing CUSIP 13033LJF5 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2026	$740,000
2027	780,000
2028	820,000
2029	865,000
2030	855,000
2031†	890,000

† Final Maturity.

The $1,715,000 2010 Series B Bonds maturing on November 15, 2025 and bearing CUSIP 13033LJJ7 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2023	$550,000
2024	570,000
2025†	595,000

† Final Maturity.

The $18,180,000 2010 Series B Bonds maturing on November 15, 2025 and bearing CUSIP 13033LJK4 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2023	$3,465,000
2024	7,135,000
2025†	7,580,000

† Final Maturity.

The $33,000,000 2010 Series B Bonds maturing on November 15, 2031 and bearing CUSIP 13033LJG3 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2026	$4,415,000
2027	4,035,000
2028	4,955,000
2029	4,640,000
2030	7,135,000
2031†	7,820,000

† Final Maturity.

The $34,515,000 2010 Series B Bonds maturing on November 15, 2031 and bearing CUSIP 13033LJL2 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2026	$4,770,000
2027	4,365,000
2028	5,300,000
2029	4,970,000
2030	7,225,000
2031†	7,885,000

† Final Maturity.

The 2010 Series B Bonds maturing on November 15, 2036 are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus accrued interest to the date of redemption, without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2032	$11,895,000
2033	13,275,000
2034	13,130,000
2035	10,250,000
2036†	10,750,000

† Final Maturity.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of any Series and maturity, the Bond Trustee shall select the Bonds to be redeemed, from all the Bonds subject to redemption or such given portion thereof equal to a multiple of Authorized Denominations of such Series and maturity not previously called for redemption, by lot or in any manner which the Bond Trustee in its sole discretion shall deem appropriate.

Notice of Redemption. Notice of redemption shall be given by the Bond Trustee by first class mail, postage prepaid, not less than 20 days, nor more than 60 days prior to the redemption date, to the respective Holders of any the Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. Each notice of redemption shall be dated, shall identify the Series of Bonds to be redeemed, shall state (i) the date of issue of the Bonds, (ii) the redemption date, (iii) the Redemption Price, (iv) the place or places where the Bonds being redeemed shall be surrendered for payment of the Redemption Price (including the name and appropriate address or addresses of the Bond Trustee), (v) the maturity date of the Bonds being redeemed, (vi) the CUSIP numbers, if any, and, in the case of the Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice shall also state that on the redemption date there will become due and payable on each of said the Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Bond Trustee specified in the redemption notice.

Failure by the Bond Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of the Bonds designated for redemption shall not affect the validity or sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Failure by the Bond Trustee to mail notice of redemption to the Repository or the Authority shall not affect the validity or sufficiency of the proceedings for redemption.

With respect to any notice of optional redemption of the Bonds, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid pursuant to the provisions of the Indenture, such notice shall state that such redemption shall be conditional upon the receipt by the Bond Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of and interest on, such Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds and such failure to redeem such Bonds shall not constitute an Event of Default. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Bond Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Bond Trustee in the same manner and to the same parties, as notice of such redemption was given pursuant to the provisions of the Indenture. Such notice may also state other conditions to the optional redemption and if any other conditions are so stated, shall state that if such conditions shall not have been satisfied on or prior to the date fixed for redemption, said notice shall be of no force and effect and the Authority shall not be required to

redeem such Bonds and such failure to redeem such Bonds shall not constitute an Event of Default. In the event that such notice of optional redemption contains any such additional condition or conditions and such condition or conditions shall not have been satisfied on or prior to the date fixed for redemption, the redemption shall not be made and the Bond Trustee shall within a reasonable time thereafter give notice to the Holders to the effect that such condition or conditions were not met and such redemption was not made, such notice to be given to the Bond Trustee in the same manner and to the same parties as notice of such redemption was given pursuant to the provisions of the Indenture.

Any notice given pursuant to the provisions of the Indenture described under this caption (other than a notice given in connection with a Mandatory Sinking Account Payment redemption) may be rescinded by written notice given to the Bond Trustee by the Corporation no later than 5 Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of such redemption was given pursuant to the Indenture.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, said the Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said the Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

All the Bonds redeemed pursuant to the provisions of the Indenture and described in this section shall be cancelled and destroyed by the Bond Trustee upon surrender thereof.

Mandatory Purchase In Lieu of Redemption.

Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond, at any time such Bond is subject to optional redemption as provided in the Indenture at a purchase price equal to the Redemption Price then applicable to such Bond. In order to exercise such option, the Corporation shall deliver to the Bond Trustee and the Authority a Favorable Opinion of Bond Counsel to the effect that such purchase, will not, in and of itself cause the interest on the Bonds of the applicable Series to be included in gross income, and the Corporation shall direct the Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the Indenture. On the date fixed for purchase of any Bond in lieu of redemption, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds and the Bond Trustee shall pay the same to the Holders of Bonds being purchased against delivery thereof. Following such purchase, the Bond Trustee shall register such Bonds in accordance with the written instructions of the Corporation. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness evidenced by such Bond. No Holder may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

Book-Entry System

The Bonds will be issued in book-entry form. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of each Series in the total aggregate principal amount of each maturity of such Series and will be deposited with DTC. See APPENDIX E – "BOOK-ENTRY SYSTEM."

The Corporation and the Authority cannot and do not give any assurances that DTC will distribute to DTC Participants (as such term is defined in Appendix E) or that DTC Participants or others will distribute to the Beneficial Owners payments of principal of and interest on the Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Corporation nor the Authority is responsible or liable for the failure of DTC or any DTC Participant or DTC Indirect

Participant (as such term is defined in Appendix E) to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority, payable solely from the Revenues pledged under the Indenture for such payment. Revenues consist primarily of Loan Repayments made by the Corporation pursuant to the Loan Agreement in amounts sufficient to pay the principal of and interest on the Bonds, when such become due. The Authority will assign its right, title, and interest in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any administrative fees and expenses to the extent payable to the Authority, the right of the Authority to be reimbursed or indemnified pursuant thereto and the right to receive certain notices and opinions, to give consents or approvals and to make inspections) and Obligation No. 28 to the Bond Trustee. The obligation of the Corporation to make the Loan Repayments with respect to the Bonds will be further evidenced and secured by Obligation No. 28. See "—The Master Indenture" below.

No reserve fund is being established in connection with the Bonds.

The Master Indenture

Joint and Several Obligations. Currently, the Corporation is the sole Member of the Obligated Group. Under the Master Indenture, the Corporation, as Obligated Group Representative, may incur, for itself and on behalf of the other Members of the Obligated Group, Indebtedness, which may be evidenced and secured by Obligations issued under the Master Indenture. All Members of the Obligated Group are jointly and severally liable with respect to the payment of each Obligation issued under the Master Indenture.

Obligation No. 28 is being issued by the Corporation under and pursuant to the Master Indenture on a parity with all other Obligations issued or to be issued thereunder. See "Outstanding Obligations Under the Master Indenture" below. All Members of the Obligated Group are required to make payments on Obligation No. 28 in amounts sufficient to pay the principal of and interest on the Bonds when due. For a discussion of entry into or withdrawal from the Obligated Group, see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Obligated Group Membership and Withdrawal."

Outstanding Obligations Under the Master Indenture. Upon the issuance of Obligation No. 28 and the refunding of the Prior Bonds, there will be nine other Obligations outstanding. Two Obligations, Nos. 9 and 19, secure the Corporation's obligations under loan agreements with the Authority with respect to the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2003 Series A, which currently are outstanding in the aggregate principal amount of $83,400,000, and the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-1, 2008 A-2, 2008 A-3, 2008 B-1 and 2008 B-2 (the "2008 Bonds"), which currently are outstanding in the aggregate principal amount of $428,500,000. Four Obligations, Nos. 13, 14, 21 and 25, secure the Corporation's obligations to make regularly scheduled payments and, in limited circumstances, settlement payments, under interest rate swap agreements entered into in connection with, or in anticipation of, the incurrence of variable rate debt, including the 2003 Series BCD Bonds and the 2008 Bonds. Obligation No. 20 in the amount of approximately $105 million secures the Corporation's obligation to make payments to Bank of America, N.A., which has issued a direct-pay letter of credit to provide liquidity support for the above-referenced 2008 Series A-2 Bonds. Obligation Nos. 26 and 27 secure the Corporation's reimbursement obligations to U.S. Bank, National Association and Wells Fargo Bank, National Association, respectively, as issuers of letters of credit in the aggregate amount of $50 million posted in lieu of collateral under swap agreements.

Security for Obligations. All Obligations issued and outstanding under the Master Indenture, including Obligation No. 28, which evidences and secures the Corporation's obligations under the Loan Agreement, are secured by security interests in (i) the Gross Revenues of each Member of the Obligated Group and (ii) the moneys and investments on deposit from time to time in the Gross Revenue Fund created under the Master Indenture and

held by the Master Trustee. For a description of the limitations on the enforceability of the Master Indenture, see "BONDHOLDERS' RISKS—Risks Related to Master Indenture Financings, Fraudulent Transfer or Conveyance Statutes" herein.

Security Interest in Gross Revenues. Pursuant to the Master Indenture, the Corporation and each of the other Members of the Obligated Group, if any, grants a security interest in its Gross Revenues. The security interest in Gross Revenues has been perfected to the extent the same may be perfected by filing under the California Commercial Code. The California Commercial Code does not permit perfection by filing with respect to certain items included in Gross Revenues. Under certain circumstances, the security interest in Gross Revenues may be subordinated to the interests of creditors other than the Holders of Obligations.

The Gross Revenue Fund; Security Interest Therein. Under the Master Indenture, the Corporation and each of the other Members of the Obligated Group, if any, are required to deposit daily all of the cash proceeds of the Gross Revenues with a depository bank or banks (collectively, a "Depository"). Subject to the provisions of the Master Indenture permitting the moneys in the Gross Revenue Fund to be used as provided therein, the Corporation and each of the other Members of the Obligated Group, if any, grants a security interest in the Gross Revenue Fund to the Master Trustee. With certain exceptions, a security interest in the moneys in the Gross Revenue Fund may be perfected only if the moneys are held by the Master Trustee or its agent. The Corporation, the Master Trustee and each Depository are required to execute and have executed account control agreements (each, an "Account Control Agreement") to create this agency relationship. See "Master Indenture—Gross Revenue Fund" in Appendix C.

Additional Indebtedness. The Corporation and each of the other Members of the Obligated Group, if any, are permitted under the Master Indenture to incur additional Indebtedness, either unsecured or secured by Permitted Encumbrances, subject to the financial tests and limitations contained in the Master Indenture. Additional Indebtedness need not be evidenced by Obligations issued under the Master Indenture. However, only Indebtedness represented by Obligations will be secured by the security interests in Gross Revenues and the Gross Revenue Fund on a parity with other Obligations. For a description of the financial tests and limits on additional indebtedness in the Master Indenture, see "Master Indenture—Covenants—Limitations on Additional Indebtedness" in Appendix C attached hereto.

Other Master Indenture Covenants. In addition to the security and other provisions described above, the Master Indenture contains provisions, covenants and restrictions related to rates and charges, mergers and other corporate combinations and divestitures, sales, leases or other dispositions of assets and other matters. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Covenants."

Limitations on Enforceability. There are circumstances under which it is possible that the Master Indenture would not be enforced by courts, especially as to future Members of the Obligated Group. Also there are a number of circumstances under which the security interests, especially the security interest in Gross Revenues, may not be enforced or may be subordinated to the claims of others. See "BONDHOLDERS' RISKS—Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes; Limitations on Enforceability of Security Interests; and Enforceability of the Loan Agreement" herein.

Proposed Amended and Restated Master Indenture

The Corporation intends to amend and restate the Master Indenture. For the form of the Amended and Restated Master Indenture of Trust (the "Amended Master Indenture"), see "APPENDIX G—FORM OF AMENDED AND RESTATED MASTER INDENTURE OF TRUST." The Amended Master Indenture will not go into effect until the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations outstanding under the Master Indenture. The Amended Master Indenture also includes one provision which will not go into effect until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations outstanding. See Section 4.14 of the Amended Master Indenture set forth in Appendix G to this Official Statement.

By purchasing the Bonds offered hereunder, the purchasers and the Beneficial Owners will be deemed to have consented to the Amended Master Indenture and the amendment of Section 4.14.

Security and Enforceability

Bankruptcy. In the event of bankruptcy of the Corporation, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90 day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such entity's liquidation. Security interests and other liens granted to a Bond Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of the Bond Trustee therein. The rights of the Bond Trustee to enforce its security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, the obligations of the Corporation under the Loan Agreement are not secured by a lien on or security interest in any assets or revenues of the Corporation, other than the lien on Gross Revenues and in the funds on deposit in the Gross Revenue Fund as described herein under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" securing all Obligations issued under the Master Indenture. Except with respect to such lien on Gross Revenues, in the event of a bankruptcy of the Corporation, Bondholders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity with all other unsecured creditors.

In the event of bankruptcy of the Corporation, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes. On the Closing Date, the Corporation will be the only Member of the Obligated Group, and, consequently, the risks described below in this section would not apply. However, should other institutions join the Obligated Group in the future, the risks described below would be relevant.

The state of insolvency, fraudulent transfer or conveyance and bankruptcy laws relating to the enforceability of obligations of one corporation in favor of the creditors of another, or the obligation of one member of an obligated group to make debt service payments on behalf of another member or the ability of a corporate parent to compel its affiliates or subsidiaries to make such payments is unsettled. The ability of the Corporation to compel one Member of the Obligated Group to make payment on behalf of another Member could be subject to challenge if such Member would, by make such payment, be rendered insolvent. In particular, such efforts by the Corporation may not be enforced under the federal Bankruptcy Code or applicable state fraudulent transfer or conveyance statutes if the obligation to pay is incurred without "fair consideration" or "reasonably equivalent value" to the obligor-Member and if the incurrence of the obligation renders the Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are matters of judicial discretion

based upon subjective standards and may vary under the federal Bankruptcy Code and other statutes that may be applicable.

In addition a court could determine, in the event of a bankruptcy of a Member, that payments made on Obligation No. 28 by a bankrupt Member could constitute payments to or for the benefit of an insider, within the meaning of Section 547(b) of the federal Bankruptcy Code, which payments, if made within one year of the filing of the bankruptcy petition, might be recoverable by the bankruptcy court from the owners of the Bonds.

If a court were to find that a Member did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness evidenced by Obligation No. 28 and such Member: (i) was insolvent; (ii) was rendered insolvent by such incurrence; (iii) was engaged in a business activity for which its remaining assets were unreasonably small; or (iv) intended (or believed) to incur, assume or issue, debt beyond its ability to pay, a court could determine to invalidate, the indebtedness represented by Obligation No. 28.

Enforceability of the Loan Agreement. The legal right and practical ability of the Bond Trustee to enforce rights and remedies under the Loan Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors rights. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

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

The various legal opinions delivered concurrently with the issuance of the Bonds are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

Enforceability of Security Interests. The security interest in Gross Revenues will be perfected to the extent, and only to the extent, that such security interest may be perfected under the California Commercial Code. The foregoing grant of a security interest may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, and (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds, Medicare and Medi-Cal payments) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund. To the extent that funds of the Obligated Group are not on deposit in the Gross Revenue Fund, the owners of Obligations, including Obligation No. 28, have no security interest in such funds.

Limited Liability of the Authority

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION THEREOF BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 28 AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT

NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE PLAN OF FINANCE

The Prior Bonds

The Authority previously issued for the benefit of the Corporation: (i) the California Health Facilities Financing Authority Revenue Bonds (UCSF-Stanford Health Care) 1998 Series B (the "1998 Series B Bonds") in the aggregate principal amount of $193,895,000, of which $159,490,000 remains outstanding, and (ii) the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2003 Series B, 2003 Series C and 2003 Series D in the aggregate principal amount of $150,000,000, all of which remain outstanding (collectively, the "2003 Series BCD Bonds" and, together with the 1998 Series B Bonds, the "Prior Bonds"). The Prior Bonds were issued for the purpose of financing and refinancing the costs of the acquisition, construction, renovation and equipping of certain health care facilities owned and operated by the Corporation.

The Refunding Plan

The 1998 Series B Bonds will be redeemed on July 7, 2010, at a redemption price equal to 100.5% of the principal amount thereof together with interest accrued thereon to the redemption date. A portion of the proceeds of the Bonds, together with Corporation funds, will be transferred to the trustee for the 1998 Series B Bonds, as escrow agent, to be held in an irrevocable escrow fund established pursuant to an escrow agreement (the "Escrow Agreement"), in such an amount as will be sufficient to pay the redemption price of the 1998 Series B Bonds on their redemption date. On the date of issuance of the Bonds, the Corporation intends to use a portion of the proceeds of the Bonds, together with Corporation funds, to redeem in full the 2003 Series BCD Bonds, at a redemption price equal to the principal amount thereof together with interest accrued thereon to the redemption date.

Related Offering

The Authority previously issued for the benefit of the Corporation the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-1, in the aggregate principal amount of $70,500,000, all of which remain outstanding (the "2008 A-1 Bonds"). The 2008 A-1 Bonds currently bear interest in a long term rate period until June 15, 2010. The 2008 A-1 Bonds will be subject to mandatory tender on June 16, 2010, at which time the Corporation anticipates that the interest rate on the 2008 A-1 Bonds will be converted to a new long term rate period which will remain in effect until the final maturity of the 2008 A-1 Bonds. The Corporation anticipates that the 2008 A-1 Bonds will be reoffered on June 16, 2010 in the total aggregate principal amount of $70,360,000, with the premium generated upon the remarketing of the 2008 A-1 Bonds, together with other funds of the Corporation, being applied to reduce the principal amount of the 2008 A-1 Bonds outstanding effective June 16, 2010. The 2008 A-1 Bonds are secured by Obligation No. 19 issued under the Master Indenture. The reoffering of the 2008 A-1 Bonds is not contingent upon the issuance of the Bonds, nor is the issuance of the Bonds contingent upon the reoffering of the 2008 A-1 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds.

	2010 Series A Bonds	2010 Series B Bonds
Estimated Sources of Funds		
Par Amount of the Bonds	$149,345,000	$146,710,000
Net Original Issue Premium	10,944,046	3,292,443
Total	$160,289,046	$150,002,443
Estimated Uses of Funds		
Redemption of Prior Bonds	$160,289,046	$150,002,443
Total	$160,289,046	$150,002,443

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation and future Members of the Obligated Group, if any, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority is not providing any such information. The Corporation, on behalf of the Obligated Group, has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

The Corporation, on behalf of the Obligated Group, has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide to The Bank of New York Mellon Trust Company, N.A., as dissemination agent, for dissemination (i) certain financial information and operating data relating to the Obligated Group by not later than 150 days following the end of the Corporation's fiscal year (which currently is August 31) (the "Annual Report"), commencing with the report for the 2010 Fiscal Year (due January 28, 2011), and (ii) notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the Corporation, in readable PDF or other acceptable electronic form, with the Electronic Municipal Market Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"). See APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for the specific nature of the information to be contained in the Annual Report and the notices of material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. The Corporation has never failed within the previous five years to comply in all material respects with any previous undertaking with regard to the Rule to provide financial information and data, operating data or notices of material events.

The Corporation additionally has covenanted that it will provide, upon written request, to any Beneficial Owner of at least $1,000,0000 in aggregate principal amount of a Series of Bonds, (i) not later than 60 days after the end of each fiscal quarter (except the fourth fiscal quarter), certain unaudited financial information for the Obligated Group for such fiscal quarter prepared by the Corporation and (ii) not later than 150 days following the end of each of the Corporation's fiscal years, the Annual Report. See APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending November 15, the amounts required to be paid by the Corporation for payment of the principal, whether by payment at maturity or upon mandatory sinking account redemption, and interest on the Bonds. The following table also includes the debt service on all bonds previously issued for the benefit of the Corporation that will be outstanding after the issuance of the Bonds.

Year Ending November 15	The Bonds Principal	The Bonds Interest	The Bonds Total Debt Service on the Bonds	The 2008A-1 Bonds Principal	The 2008A-1 Bonds Interest	The 2008A-1 Bonds Total Debt Service on the 2008A-1 Bonds[1]	Total Debt Service on Outstanding Bonds[2]	Total Debt Service
2010	–	$ 6,360,681	$ 6,360,681	–	$1,462,643	$ 1,462,643	$13,057,419	$20,880,742
2011	$ 4,485,000	15,368,088	19,853,088	$ 600,000	3,533,903	4,133,903	23,210,415	47,197,405
2012	4,660,000	15,188,688	19,848,688	275,000	3,520,403	3,795,403	22,773,384	46,417,474
2013	4,895,000	14,955,688	19,850,688	700,000	3,513,528	4,213,528	23,316,808	47,381,023
2014	5,085,000	14,759,888	19,844,888	275,000	3,492,528	3,767,528	22,597,881	46,210,296
2015	5,345,000	14,505,638	19,850,638	675,000	3,484,278	4,159,278	23,176,993	47,186,908
2016	5,560,000	14,291,838	19,851,838	425,000	3,462,340	3,887,340	22,958,535	46,697,713
2017	5,840,000	14,013,838	19,853,838	425,000	3,447,465	3,872,465	23,011,616	46,737,919
2018	6,130,000	13,721,838	19,851,838	475,000	3,430,465	3,905,465	23,596,415	47,353,718
2019	6,435,000	13,415,338	19,850,338	225,000	3,411,465	3,636,465	22,900,567	46,387,370
2020	6,760,000	13,093,588	19,853,588	675,000	3,402,465	4,077,465	23,587,781	47,518,834
2021	7,095,000	12,755,588	19,850,588	300,000	3,375,465	3,675,465	23,031,497	46,557,550
2022	7,450,000	12,400,838	19,850,838	675,000	3,363,465	4,038,465	23,484,422	47,373,724
2023	11,835,000	12,028,338	23,863,338	525,000	3,328,703	3,853,703	18,125,374	45,842,414
2024	15,915,000	11,439,338	27,354,338	550,000	3,301,665	3,851,665	14,636,501	45,842,503
2025	16,800,000	10,646,438	27,446,438	550,000	3,273,340	3,823,340	14,572,439	45,842,217
2026	18,245,000	9,809,413	28,054,413	400,000	3,245,015	3,645,015	14,146,989	45,846,416
2027	17,975,000	8,787,875	26,762,875	775,000	3,224,415	3,999,415	15,081,919	45,844,209
2028	20,370,000	7,780,038	28,150,038	425,000	3,184,503	3,609,503	14,083,710	45,843,250
2029	20,310,000	6,639,363	26,949,363	775,000	3,162,615	3,937,615	14,957,480	45,844,458
2030	21,860,000	5,500,713	27,360,713	700,000	3,122,703	3,822,703	14,659,849	45,843,264
2031	23,705,000	4,284,163	27,989,163	550,000	3,086,653	3,636,653	14,215,798	45,841,613
2032	11,895,000	2,965,000	14,860,000	4,125,000	3,058,328	7,183,328	23,798,292	45,841,619
2033	13,275,000	2,370,250	15,645,250	4,075,000	2,845,890	6,920,890	23,276,563	45,842,703
2034	13,130,000	1,706,500	14,836,500	4,475,000	2,636,028	7,111,028	23,898,387	45,845,915
2035	10,250,000	1,050,000	11,300,000	4,475,000	2,405,565	6,880,565	23,451,670	41,632,235
2036	10,750,000	537,500	11,287,500	4,725,000	2,175,103	6,900,103	23,735,164	41,922,767
2037	–	–	–	8,800,000	1,931,765	10,731,765	34,185,913	44,917,678
2038	–	–	–	9,275,000	1,478,565	10,753,565	34,637,055	45,390,620
2039	–	–	–	9,650,000	1,000,903	10,650,903	34,684,123	45,335,026
2040	–	–	–	9,785,000	503,928	10,288,928	34,549,352	44,838,280
2031	–	–	–	–	–	–	37,821,005	37,821,005
2042	–	–	–	–	–	–	37,635,249	37,635,249
2043	–	–	–	–	–	–	37,903,627	37,903,627
2044	–	–	–	–	–	–	37,861,442	37,861,442
2045	–	–	–	–	–	–	37,962,919	37,962,919

(1) Assumes $140,000 reduction in original total aggregate principal amount after application of remarketing premium and Corporation funds, as described under "THE PLAN OF FINANCE—Related Offering" herein.

(2) Assumes that interest on certain outstanding bonds with variable interest rates is payable at the rate determined in accordance with the related interest rate swap transaction for such series to the final maturity of the related interest rate swap transaction. The interest rate swap transaction for the 2008 B-1 Bonds and the 2008 B-2 Bonds terminates in 2016. For subsequent periods until maturity, assumes that interest on the 2008 B-1 Bonds and 2008 B-2 Bonds is payable at 4.0% per annum.

BONDHOLDERS' RISKS

The purchase of the Bonds involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should evaluate all of the information presented in this Official Statement. This section on Bondholders' Risks focuses primarily on the general risks associated with hospital or health system operations, whereas Appendix A describes the Obligated Group specifically. These should be read together.

General

Except as noted under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Bonds are payable on an equal and pro rata basis from Loan Repayments made pursuant to the Loan Agreement and funds provided under Obligation No. 28 and the Indenture. The Obligated Group's obligation to make the Loan Repayments with respect to the Bonds will be further evidenced and secured by Obligation No. 28 issued under the Master Indenture. All Obligations issued and Outstanding under the Master Indenture are secured by the security interests in the Gross Revenues and Gross Revenue Fund. **No representation or assurance can be made that revenues will be realized by the Obligated Group in amounts sufficient to make the Loan Repayments and hence the debt service on the Bonds.**

The Obligated Group is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and are subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), the Attorney General of the State of California, and other federal, state and local government agencies. The future financial condition of the Obligated Group could be adversely affected by, among other things, changes in the method and amount of payments to the Obligated Group by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., a "single-payor" system), future changes in the economy, demographic changes, availability of physicians, nurses and other healthcare professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation and any future Member of the Obligated Group under the Loan Agreement and Obligation No. 28 and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation and any future Obligated Group Member and, therefore, of the Bonds, could be adversely affected by, among other things, an adverse determination by a governmental entity, non-compliance with governmental regulations or legislative changes.

Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of the Obligated Group are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial conditions and results of operations of the Corporation or any future Member of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Loan Agreement and Obligation No. 28.

Federal Health Care Reform. The recently enacted federal health care reform legislation contains extensive provisions that will take effect and be implemented over the course of the next decade. This legislation addresses almost all aspects of hospital and provider operations, health care delivery and reimbursement. These changes will likely result in lower hospital and provider reimbursement, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences.

General Economic Conditions; Bad Debt, Indigent Care and Investment Performance. Health care providers are economically influenced by the environment in which they operate. To the extent that employers reduce their workforces, employers reduce their budgets for employee healthcare coverage or private and public insurers seek to reduce payments to health care providers or curb utilization of health care services, health care providers may experience decreases in insured patient volume and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Economic downturns and lower funding of Medicare and state Medicaid and other state health care programs may increase the number of patients These conditions may give rise to increases in health care providers' uncollectible accounts, or "bad debt", and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Losses in pension and benefit funds may result in increased funding requirements. Potential failure of lenders, insurers or vendors may negatively impact the results of operations and the overall financial condition of health care providers. Philanthropic support may also decrease. For a discussion of these risks with regard to the Corporation, in particular the Corporation's recent results of operations and statement of financial position and performance of the Corporation's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information."

Interest Rate Swaps and Hedge Risk. Interest rate swaps, which are relatively common in connection with certain recently issued tax-exempt bonds, have experienced negative trading patterns, causing many to cease to function effectively to hedge interest rate exposure. Some swap counterparties have ceased to exist and others have suffered repeated downgrading and negative market perception. Further, certain swap arrangements may not be terminable except upon the payment of termination fees by the borrowing party, which may be substantial in amount. In the interim, negative mark-to-market valuation of certain swap arrangements must be recorded on a

borrower's balance sheet. These factors may have a material adverse impact on hospitals and health systems involved in such financial arrangements. For a discussion of the interest rate swap agreements that the Corporation has entered into, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information."

Rate Pressure from Insurers and Purchasers. Certain health care markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over the rates, utilization and competition of hospitals and other health care providers. Rate pressure imposed by health insurers or other major purchasers, including managed care payers, may have a material adverse impact on health care providers, particularly if major purchasers put increasing pressure on payers to restrain rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals and other health care providers in the form of payment shortfalls or delay, and continuing obligations to care for managed care patients without receiving payment. In addition, disputes with non–contracted payers may result in an inability to collect billed charges from these payers.

Nonprofit Health Care Environment. The significant tax benefits received by nonprofit, tax-exempt hospitals may cause the business practices of such hospitals to be subject to scrutiny of public officials and the press, and to legal challenges of the ongoing qualification of such organizations for tax-exempt status. Practices that have been examined, criticized or challenged have included pricing practices, billing and collection practices, charitable care, executive compensation. Challenges to entitlement to exemption of property from real property taxation have succeeded from time to time. Multiple governmental authorities, including state attorneys general, the Internal Revenue Service, Congress and state legislatures have held hearings and carried out audits regarding the conduct of tax-exempt organizations, including tax-exempt hospitals. These efforts will likely continue in the future. Citizen organizations, such as labor unions and patient advocates, have also focused public attention on the activities of tax-exempt hospitals and raised questions about their practices. Proposals to increase the regulatory requirements for nonprofit hospitals' retention of tax-exempt status, such as by establishing a minimum level of charity care, have also been introduced repeatedly in Congress. Significant changes in the obligations of nonprofit, tax-exempt hospitals and challenges to the tax-exempt status of non-profit hospitals generally or the Corporation in particular could have a material adverse effect on the Corporation.

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and expectations of physicians and patients require constant and often significant capital investment. In California, seismic safety standards mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may outstrip capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of recent credit market dislocations and investment losses, and it is uncertain how long those conditions may persist.

Construction Risks. Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and labor, and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—Long-Range Financial Plan and Additional Capital Needs."

Government "Fraud" Enforcement. "Fraud" in government funded health care programs is a significant concern of DHHS, CMS and many states and is one of the federal government's prime law enforcement priorities. The federal government and, to a lesser degree, state governments impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of "fraud" in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital and other health care provider commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. Violations carry significant sanctions. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices.

Violations and Sanctions. The government and/or private "whistleblowers" often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal and monetary penalties, including withholding essential hospital and other health care provider payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital and other health care provider operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital and health care sector. Most large hospital and other health care provider systems are likely to be adversely impacted.

Personnel Shortage. Currently, a shortage of physicians (including specialists) and nursing and other technical personnel exists which may have its primary impact on hospitals and health care systems. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, state regulation of nurse staff ratios intensified the shortage of nursing personnel. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur or worsen. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals and health care systems.

Technical and Clinical Developments. New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated, and that may dramatically change medical and hospital care. These could result in higher health care costs, reductions in patient populations, lower utilization of hospital service and new sources of competition for hospitals.

Costs and Restrictions from Governmental Regulation. Nearly every aspect of hospital operation and health care delivery is regulated, in some cases by multiple agencies of government. The level and complexity of regulation and compliance audits appear to be increasing, imposing greater operational limitations, enforcement and liability risks, and significant and sometimes unanticipated costs.

Proliferation of Competition. Hospitals increasingly face competition from specialty providers of care and ambulatory care facilities. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals, particularly where principal physician admitters may curtail their use of a hospital service in favor of a competitor's facilities.

Increasing Consumer Choice. Hospitals and other health care providers face increased pressure to be transparent and provide information about cost and quality of services, which may lead to a loss of business as consumers and others make choices about where to receive health care services based upon cost and quality.

Labor Costs and Disruption. The delivery of health care services is labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital and health care provider operations and financial condition. Hospital and health care employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs

of operation. Workforce disruption may negatively impact hospital revenues and reputation. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Employees."

State Medicaid Program. While the California Medicaid program, known as the Medi-Cal program, is rarely as important to hospital and other health care provider financial results as Medicare, it nevertheless constitutes an important payor source to many hospitals, physicians and other health care providers. This program often pays hospitals and other health care providers at levels that are substantially below the actual cost of the care provided. As Medi-Cal is partially funded by the State of California, the financial condition of the State of California is likely to result in lower funding levels and/or payment delays. This could have a material adverse impact on hospitals and other health care providers.

Pension and Benefit Funds. As large employers, hospitals and health care providers may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS— Summary of Financial Information–Management's Discussion and Analysis–Pension Funding Requirements."

Medical Liability Litigation and Insurance. Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation, and resultant liabilities, may increase in the future. Hospitals and health care providers may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

Facility Damage. Hospitals and health care providers are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, floods, fires, other natural causes, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on operations, financial condition and results of operations.

Nonprofit Health Care Environment

As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business transactions and is a major employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

The operations and practices of nonprofit, tax-exempt hospitals are routinely challenged or criticized for inconsistency or inadequate compliance with the regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

Congressional Hearings. Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations, as part of health care reform generally. See "IRS Examination of Compensation Practices and Community Benefit" below.

Bond Examinations. Internal Revenue Service ("IRS") officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of

private use. A schedule to the revised Form 990 return (Schedule K), effective for the 2009 tax year and thereafter, is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. Schedule K also requires tax-exempt organizations to report on the investment and use of bond proceeds to address IRS concerns regarding compliance with arbitrage rebate requirements and the private use of bond-financed facilities.

IRS Examination of Compensation Practices and Community Benefit. In 2004, the IRS began a new compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In 2009, the IRS issued its Hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt hospitals' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicates that the IRS will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations and, in certain circumstances, may conduct further investigations or impose fines on such organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The most recent IRS report on this initiative determined that a lack of uniformity in definitions of community benefit used by reporting hospitals, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. The revised Form 990 includes a new schedule, Schedule H, which hospitals must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congressional committee to codify the requirements for hospitals' tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care.

California Attorney General. California nonprofit public benefit corporations, including the Corporation, are subject to oversight and examination by the California Attorney General (the "AG") to ensure that their charitable purposes are being carried out, that their fund raising and investment activities comply with state law and that the terms of charitable gifts are followed.

Financial Assistance and Charity Care. California law requires hospitals to maintain written policies about discount payment and charity care and to provide copies of such policies to patients and the Office of Statewide Health Planning and Development ("OSHPD"). The law also requires hospitals to follow specific billing and collection procedures. The Corporation has adopted and maintains such policies.

Indigent Care. Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. These hospitals and health care providers may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for the uninsured and under-insured. General economic conditions that affect the number of employed individuals who have health coverage affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, county, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

Class Actions. Nonprofit hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for nonprofit hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on nonprofit hospitals and health systems in the future.

Challenges to Real Property Tax Exemptions. The real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the

health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 28.

Health Care Reform Initiatives

Federal Health Care Reform. As a result of recently enacted federal health care reform legislation (the "Health Care Reform Act"), substantial changes are anticipated in the United States health care system. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are slated to take effect at specified times over approximately the next decade and, therefore, the full consequences of the new laws on the health care industry will not be immediately realized. The ramifications of federal health care reform legislation may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the health care reform legislation may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding the implementation of health care reform legislation create unpredictability for the strategic planning efforts of health care providers, which in itself constitutes a risk.

The changes in the health care industry brought about by the Health Care Reform Act will likely have both positive and negative effects, directly and indirectly, on the nation's hospitals, and on the Corporation specifically. The projected increase in the numbers of individuals with health care insurance, occurring as a consequence of the Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the mandate for individuals to purchase insurance, could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. The greatest negative impact to the hospital industry overall will likely result from substantial reductions in Medicare payments. The legislation's cost-cutting provisions to the Medicare program include reduction in Medicare market basket updates to hospital reimbursement rates under the inpatient prospective payment system, which are projected by the CMS actuary to result in Medicare savings of $112 billion over the next ten years, as well as reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions.

Health care providers will likely be further subject to decreased reimbursement as a result of implementation of recommendations of the Medicare payment advisory board, whose directive is to reduce Medicare cost growth. The advisory board's recommended reductions, beginning in 2014, will be automatically implemented unless Congress adopts alternative legislation that meets equivalent savings targets.

The Health Care Reform Act will likely affect some hospitals differently from others, depending, in part, on how each hospital adapts to the legislation's emphasis on directing more of federal health care dollars to integrated provider organizations and providers with demonstrable achievements in quality care. The Health Care Reform Act establishes a value-based purchasing system, for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The legislation also funds various demonstration programs and pilot projects to evaluate, and encourage new provider delivery models and payment structures, including accountable care organizations and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded or their effect on hospitals' revenues or financial performance cannot be predicted.

Health care fraud and abuse laws also will continue to create compliance challenges for health care providers. The Health Care Reform Act contains more than 32 sections related to health care fraud and abuse and program integrity. These include amendments to existing criminal, civil, and administrative anti-fraud statutes and

increases in funding for enforcement and efforts to recoup prior federal health care payments to providers. The additional compliance requirements and increased emphasis on enforcement and monetary recoupment heighten the legal and financial exposure of health care providers.

California Health Care Reform. During the past decade, California state legislators have frequently introduced proposals to reform the health care delivery system and insurance market, including a proposal to create a statewide single-payor system. Legislation or regulation concerning health care reform could have a material adverse effect on the Corporation or any future Member of the Obligated Group and its operations.

Patient Service Revenues

The Medicare Program. Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state and The Joint Commission. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, policies and services.

As the population ages, more people will become eligible for the Medicare program. Current projections indicate that demographic changes and continuation of current cost trends will exert significant and negative forces on the overall federal budget. The Health Care Reform Act institutes multiple mechanisms for reducing the costs of the Medicare program. The demonstration and pilot projects authorized and funded by the Health Care Reform Act are also likely to precipitate other significant modifications in the future to the Medicare payment system. Management cannot project the extent of these modifications, or what impact such modifications may have on the financial operations of the Corporation.

Hospitals also receive payments from health plans under the Medicare Advantage program. The Health Care Reform Act includes significant changes to federal payments to Medicare Advantage plans. Payments to plans are frozen for fiscal year 2011 and thereafter will transition to benchmark payments tied to the level of fee-for-service spending in the applicable county (i.e., from 95% of payment levels in the highest-spending counties to 115% of levels in the lowest-spending counties). These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

For information concerning the Medicare payments received by the Corporation for the fiscal years ended August 31, 2007, 2008 and 2009, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues."

Medicare and Medicaid Audits. Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments to reimbursement claimed under these programs. Medicare and Medicaid regulations also provide for withholding reimbursement payments in certain circumstances. New billing rules and reporting requirements for which there is no clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs.

Authorized by the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Medicare Integrity Program ("MIP") was established to deter fraud and abuse in the Medicare program. Funded separately from the general administrative contractor program, the MIP allows CMS to enter into contracts with outside entities and insure the "integrity" of the Medicare program. These entities, Medicare zone program integrity contractors ("ZPICs"), formerly known as program safeguard contractors, are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the OIG. CMS is also planning to enable ZPICs to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

CMS also enlists recovery audit contractors ("RACs") to conduct periodic annual audits of Medicare payments to search for potentially improper Medicare payments from prior years that were not detected through CMS's routine program integrity efforts. The RACs are private contractors, paid on a contingency fee basis, and use their own software and review processes. Although required to identify both overpayments and underpayments, RACs have in practice collected significantly more in overpayments from providers in proportion to the underpayments to providers.

In addition, CMS has instituted a Medicaid Integrity Program, modeled on the MIP. Medicaid Integrity Program contractors assist state Medicaid agencies by analyzing Medicaid claims data to identify high-risk areas and potential vulnerabilities and conducting post-payment field audits and desk reviews audits of Medicaid provider payments.

Audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Health Care Reform Act explicitly gives HHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud.

Hospital Inpatient Reimbursement. Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups ("DRGs"). The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

The Health Care Reform Act includes provisions that will constrain increases in payments to be made to hospitals for inpatient services, reduce rates paid to hospitals that do not meet established quality benchmarks, and restructure payments to address perceived treatment inefficiencies, including eliminating or cutting reimbursement for certain hospital-acquired conditions and readmissions. Most significantly, the Health Care Reform Act decreases Medicare's annual payment updates for services covered under the Part A hospital insurance program which are intended to account for economy-wide productivity increases and cost savings. Along with certain other reductions, these adjustments are estimated to reduce Medicare spending substantially over the decade following enactment. There can be no assurance that these future payment limitations will not adversely affect the revenue of the Corporation or any future member of the Obligated Group.

Hospital Outpatient Reimbursement. Hospitals are generally paid for outpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as ambulatory payment classifications ("APC"). The actual cost of care, including capital costs, may be more or less than the considerations. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient 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.

Reimbursement of 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 (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Corporation's or any future Member's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Medical Education Payments. The Corporation, as the operator of a teaching hospital, has historically received direct and indirect medical education reimbursement through the Medicare program. In recent years, the direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit. For example, the Balanced Budget Act of 1997 capped the number of residents recognized by Medicare for reimbursement purposes at the number of residents working in a hospital for

the hospital's most recent cost report period ended on or before December 31, 1996, and contained other provisions that limit reimbursement for both direct and indirect medical education costs. Reductions in the level of reimbursement for direct and indirect medical education costs could have a material and adverse effect on the financial condition of the Corporation.

Hospital Tax. On October 11, 2009, Governor Schwarzenegger signed into law Assembly Bill 1383, the Medi-Cal Hospital Provider Rates Stabilization Act and the Quality Assurance Fee Act ("AB 1383"). AB 1383 imposes a quality assurance fee on general acute care hospitals, except for designated public hospitals. The proceeds from this fee will be used in ways that earn federal matching funds for Medi-Cal, including increases in Medi-Cal payments to hospitals, supplemental payments to managed care plans, health care coverage for children and certain costs of administering the program. The quality assurance fee will not be implemented unless the federal government approves a program that will replace California's current Medi-Cal Hospital/Uninsured Care Demonstration Project Act. If implemented, the quality assurance fee will be payable through December 31, 2010, and the Medi-Cal payment increases for which the fee revenues will be used have a scheduled sunset date of January 1, 2013. AB 1383 also directs the legislature to enact subsequent legislation to impose a quality assurance fee that will be effective January 1, 2011, subject to federal approval allowing the State to obtain federal matching funds.

The Corporation may be required to pay the AB 1383 quality assurance fee, if implemented, and there can be no assurance that the California legislature will not pass legislation to extend the fee beyond December 31, 2010 or create an equivalent fee that serves a purpose besides obtaining federal matching funds for Medi-Cal. While the Corporation will benefit from the receipt of increased Medi-Cal payments during the effective period of AB 1383, there can be no assurance that the fee revenues will cover the program expenditures intended and promised by the legislature.

Medicaid Program. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid spending.

California Medi-Cal. Medi-Cal is the California Medicaid program. The State of California selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients. The State is obligated to make contractual payments only to the extent the legislature appropriates adequate funding. Except in areas of the State that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days' notice and the State may terminate without notice under certain circumstances. No assurances can be made that hospitals will be awarded Medi-Cal contracts or that any such contracts will reimburse hospitals for the cost of delivering services.

For information concerning the Medi-Cal payments received by the Obligated Group, for the fiscal years ended August 31, 2007, 2008 and 2009, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues."

California State Budget. California faces severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slower economic growth and higher unemployment, which may continue or worsen over the coming years. Shortfalls between state revenues and spending have in the past and may in the future result in cutbacks to government health care programs. Failure by the California legislature to approve budgets prior to the start of a new fiscal year can also result in a temporary hold on or delay of Medi-Cal reimbursement. The State of California is projected to face a budget deficit for the 2010-2011 fiscal year of approximately $18 billion, including carry-over of losses from the two prior fiscal years. This deficit will likely be resolved through spending reductions. Proposals by the Governor to bridge the projected gap between revenue and expenditures in the 2010-2011 fiscal year include cuts to state health and human services programs. It is not possible to predict what actions will be taken in future years by the State Legislature and the Governor to address California's financial problems.

The financial challenges facing the State of California may negatively affect hospitals in a number of ways, including, elimination or reduction of health care safety net programs (causing a greater number of indigent,

uninsured or underinsured patients) and reductions in Medi-Cal reimbursement rates. The financial challenges may also result in a greater number of indigent, uninsured or underinsured patients who are unable to pay for their care or access primary care facilities, a greater number of individuals who qualify for Medi-Cal and reductions in Medi-Cal reimbursement rates.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs") that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

In California, managed care plans have replaced indemnity insurance as the prime source of non-governmental payment for hospital services, and hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. Regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which may require multiple forms of cost containment.

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the usual and customary charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

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

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

For information concerning the managed care payments received by the Obligated Group for the fiscal years ended August 31, 2007, 2008 and 2009, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues."

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. Published rankings such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospital, the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the Members. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of

performance are set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

Increased Enforcement Affecting Academic Research. In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the Office of Inspector General (the "OIG"), in its recent "Work Plans" has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the National Institutes of Health and other agencies of the U.S. Public Health Service. Although the Corporation is not the direct recipient of such awards (instead, Stanford University School of Medicine is the recipient of research awards), the Corporation receives payments for health care items and services under many of these grants as a subcontractor and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Corporation to sanctions as well as repayment obligations.

Regulatory Environment

"Fraud" and "False Claims." Health care "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 others 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 health care fraud, including the exclusion of a hospital from participation in the Medicare/Medicaid programs, civil monetary penalties, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and 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 a hospital and to nearly all individuals and entities with which a hospital does business. Fraud investigations, settlements, prosecutions and related publicity can have a material adverse effect on hospitals. 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 ("FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim for payment or approval for payment for which the federal government provides, or reimburses at least some portion of the requested money or property. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government's primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital.

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 a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions.

Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to $250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and 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.

State "Fraud" and "False Claims" Laws. Hospital providers in California also are subject to a variety of State laws related to false claims (similar to the FCA or that are generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or that are generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark). These prohibitions while similar in public policy and scope to the federal laws have not in all instances been avidly enforced to date. However, in the future they could pose the possibility of material adverse impact for the same reasons as the federal statutes.

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 radiation and other imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. If certain technical requirements are met, many ordinary business practices and economically desirable arrangements between hospitals and physicians arguably constitute "financial relationships" within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute. The Stark regulations effective December 4, 2007 and the CMS comments proceeding them have made the statute more difficult to interpret clearly; this increases the possibility that inadvertent violations may occur.

Medicare may deny payment for all services related to a prohibited referral and a hospital 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, the 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 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.

Antitrust. While enforcement of the antitrust laws against hospitals has been less intense in recent years, antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing disputes.

Violation of the antitrust laws could result in criminal and civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines.

HIPAA. HIPAA adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from Medicare.

HIPAA addresses the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from $50,000 to $250,000 and 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.

The HITECH Act. Provisions in the 2008 Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities' marketing communications. Management of the Corporation does not expect that the prohibited practices provisions of the HITECH Act will affect the Corporation in any material respect.

Security Breaches and Unauthorized Releases of Personal Information. State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Exclusions from Medicare or Medicaid Participation. The government may exclude a hospital from Medicare/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 health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an 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 health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital would be decertified and no program payments can be made. Any hospital exclusion could be a materially adverse event. In addition, exclusion of hospital employees may be another source of potential liability for hospitals or health systems.

Administrative Enforcement. Administrative regulations may require less proof of a violation than do criminal laws, and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of an administrative enforcement actions.

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.

EMTALA. The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals to treat or 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 penalties of up to $50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital may be liable for any claim by an individual who has suffered harm as a result of a violation.

Licensing, Surveys, Investigations and Audits. Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

Environmental Laws and Regulations. Health facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Health facilities may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

Enforcement Activity. Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above.

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 similar payments and 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 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, regardless of outcome.

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

Business Relationships and Other Business Matters

Integrated Delivery Systems. Health facilities and health care systems often own, control or have affiliations with relatively large physician groups and independent practice associations. Generally, the sponsoring health facility or health system will be the capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital or health system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization. Growth of integrated delivery systems may be resisted by local communities and physician groups.

Physician Medical Staff. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

Physician Supply. Sufficient community-based physician supply is important to hospitals. CMS annually reviews overall physician reimbursement formulas. Changes to physician compensation formulas could lead to physicians locating their practices in communities with lower Medicare populations. Hospitals may be required to invest additional resources in recruiting and retaining physicians, or may be required to increase the percentage of employed physicians in order to continue serving the growing population base and maintain market share.

Competition Among Health Care Providers. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, HMOs, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent. The strong market position of Kaiser Permanente, a closed managed care system, presents additional challenges.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists and services that generate a significant source of revenue may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons develop their own specialty heart hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters), taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A variety of proposals have been advanced recently to permanently prohibit such investments. Nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

Likewise, freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely a for-profit business, may not accept indigent patients or low paying programs and would leave these populations to receive services in the hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

Action by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

Labor Relations and Collective Bargaining. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Certain employees of the Corporation are currently covered by collective bargaining agreements. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Employees."

Wage and Hour Class Actions and Litigation. Federal law and many states, including notably California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these "wage and hour" issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals, such class actions can involve multi-million dollar claims, judgments and settlements. A major class action decided or settled adversely to the Corporation could have a material adverse impact on its financial condition and results of operations.

Health Care Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors (e.g., physician medical directors) as employees, back taxes and penalties could be material.

Staffing. In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. In addition, aging medical staffs and difficulties in recruiting physicians are leading to physician shortages. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for

physicians and employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly. This trend could have a material adverse impact on hospitals.

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

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

There is no assurance that hospitals will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against a hospital or that such coverage will be available at a reasonable cost in the future.

Information Systems. The ability to adequately price health care services and to accurately report financial results depends on the integrity of the data stored within information systems. Information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other health care professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on health care providers.

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of the Corporation and any future Members of the Obligated Group. The tax-exempt status of the Bonds presently depends upon maintenance by each Obligated Group Member, consisting currently only of the Corporation, that receives or benefits from the proceeds of the Bonds (the "Benefiting Member") of its status as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The maintenance of such 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 other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The Corporation participates in a variety of joint ventures and transactions with physicians either directly or indirectly. Management believes that the joint ventures and transactions to which the Corporation is a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. The IRS conducts special audits of large tax-exempt health care organizations with at least $500 million in assets or $1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing of partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that the Corporation or any future Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by even one Benefiting Member potentially could result in loss of tax exemption of the Bonds and of other tax-exempt debt of the Corporation or any future Member of the Obligated Group and defaults in covenants regarding the Bonds and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation or any future Obligated Group Member. For these reasons, loss of tax-exempt status of any Benefiting Member could have a material adverse effect on the financial condition of the Obligated Group, taken as a whole.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain "excess benefit transactions" involving 501(c)(3) 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 net revenues of the tax-exempt entity. 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 statute imposes excise taxes on the disqualified person and any "organization manager" who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on an Obligated Group Member or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these "intermediate sanctions" rules.

State and Local Tax Exemption. Until recently, the State of California has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. In California it is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems. It is likely that the loss by the Corporation or any future Member of the Obligated Group of federal tax exemption would also trigger a challenge to their respective state tax-exemption. Depending on the circumstances, such event could be material and adverse.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Obligated Group is currently treated as exempt from real property taxation. Although the real property tax exemptions of the Corporation with respect to its core hospital facilities are not, to the knowledge of management, under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemptions of the Corporation or any future Obligated Group Member.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of

state or local governments will not materially adversely affect the financial condition of the Obligated Group by requiring payment of income, local property or other taxes.

Maintenance of Tax-Exempt Status of Interest on the Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States Treasury, and a requirement that the issuer file an information report with the IRS. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. The Authority has covenanted in the Indenture that it will not take any action or refrain from taking any action that would cause interest on the Bonds to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds including the use of bond proceeds in the charitable organization sector, with specific review of private use. In addition, the IRS states that it has sent post-issuance compliance questionnaires to several hundred nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, more will be sent to additional nonprofit organizations.

Effective with the 2009 tax year, tax-exempt organizations must also complete new schedules to IRS Form 990—Return of Organizations Exempt From Income Tax, which create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K requires detailed information related to all outstanding bond issues of tax-exempt borrowers, including information regarding operating, management and research contracts as well as private use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations' officers, directors, trustees, key employees, and other highly compensated employees.

There can be no assurance that responses by Obligated Group Members to a questionnaire or Form 990 will not lead to an IRS review that could adversely affect the market value of the Bonds or of other outstanding tax-exempt indebtedness of the Obligated Group. Additionally, the Bonds or other tax-exempt obligations issued for the benefit of the Obligated Group Members may be, from time to time, subject to examinations or audits by the IRS.

The Corporation believes that the Bonds properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." No ruling with respect to the Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an examination of the Bonds will not adversely affect the Bonds or the market value of the Bonds. See "TAX MATTERS" herein.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code. As tax-exempt organizations, the Corporation and any future Obligated Group Member are limited with respect to their use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the hospitals in an effort to determine whether any action should be taken with respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation, or revocation of the Corporation or any future Member's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Bonds.

Other Risk Factors

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in California could destroy or disable the Hospital, the Clinics or other health care facilities operated by the Corporation or any future Obligated Group Member.

California law requires each acute care hospital in the State either to comply with new hospital seismic safety standards or to cease acute care operations by January 1, 2009. California law allows three types of extensions to the January 1, 2009 deadline.

First, the compliance deadline can be extended to January 1, 2013 if a hospital shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards. The Corporation requested and received an extension for compliance until January 1, 2013. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS – Services, Facilities and Operations."

The second type of extension allows the 2013 deadline to be extended for up to two years to January 1, 2015, in limited cases. To qualify for the extension, such hospital must have (i) begun construction when the extension is requested; (ii) submitted construction plans to OSHPD before January 1, 2010; (iii) obtained a building permit for construction by January 1, 2011; (iv) submitted to state officials a timetable for construction; and (v) made reasonable progress in meeting this timetable. The Corporation has developed a master plan to replace the hospital facilities in order to comply with these requirements and to modernize and consolidate facilities. Its ability to meet the milestones for compliance with seismic safety standards depends in part on timely receipt of approvals from the City of Palo Alto and other agencies which have not yet been obtained. Although management of the Corporation believes such approvals will be obtained, there can be no assurances that they will be obtained on a timely basis. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—Seismic Compliance" and "—Long-Range Financial Plan and Additional Capital Needs."

The third type of extension allows an acute care hospital that has obtained a compliance extension to 2013 to extend its compliance deadline to 2020. This extension is meant for hospitals that cannot afford to retrofit existing facilities by 2013, and gives them an opportunity to forego retrofitting and instead construct replacement facilities by 2020. To qualify for this extension, the hospital must (i) certify that it lacks financial capacity to comply with applicable seismic safety standards by 2013 using statutory criteria; (ii) show that it serves otherwise underserved communities; (iii) submit its facility master plan to OSHPD before January 1, 2010; (iv) comply with statutory construction planning timeline; and (v) document its progress on the project.

Risks Related to Outstanding Variable Rate Obligations. The Corporation has variable rate obligations outstanding, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is not unrestricted, however, because the Corporation would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents.

In addition, after giving effect to the refunding of the Prior Bonds and the reoffering of the 2008 A-1 Bonds as described herein, approximately $358 million of variable rate bonds, issued on behalf of the Corporation, have a "put" feature which grants the holders of such bonds the right to tender these bonds for payment on seven, or fewer, days' notice. Approximately $105 million of such bonds are secured by a letter of credit issued by a commercial bank. Approximately $168 million of such bonds are not supported by either a credit facility or a liquidity facility. If any variable rate bonds are tendered for purchase and not remarketed and, in the case of the bonds secured by a letter of credit, the bank fails to advance funds to purchase the bonds, the Corporation will be obligated to purchase such bonds.

The Corporation has entered into interest rate swap agreements related to indebtedness of the Obligated Group (the "Swaps"). The Swaps are and will be subject to periodic "mark-to-market" valuations and at any time may have a negative value to the Corporation. The Swaps counterparty may terminate the Swaps upon the

occurrence of certain "termination events" or "events of default." The Corporation may terminate the Swaps at any time. If either the counterparty to the Swaps or the Corporation terminates any of the Swaps during a negative value situation, the Corporation may be required to make a termination payment to such Swaps counterparty, and such payment could be material.

Pursuant to the Swaps, the counterparty will be obligated to make payments to the Corporation, which payments may be more or less than the interest rates the Corporation is required to pay with respect to a comparable principal amount of the related indebtedness.

Regularly scheduled payments and, in limited circumstances, settlement amounts under the Swaps are secured under the Master Indenture. The Corporation or any future Member of the Obligated Group may in the future enter into other financial product and hedge devices that also may be secured under the Master Indenture. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Agreements."

Investments. The Obligated Group has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be material. For a discussion of the Corporation's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Liquidity and Investments."

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Corporation, or the market value of the Bonds, to an extent that cannot be determined at this time.

(a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

(b) Reduced demand for the services of the Corporation or any future Member of the Obligated Group that might result from decreases in population or loss of market share to competitors.

(c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(d) 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 hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

(e) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry.

(f) The occurrence of a natural or man-made disaster, a pandemic or an epidemic that could damage the Obligated Group's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Obligated Group's operations and the generation of revenues from the facilities.

(g) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from

State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is such interest included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Corporation have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities refinanced by the Bonds in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the Beneficial Owner from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Corporation or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult obtaining an independent review of IRS positions with which the Authority or the Corporation legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Corporation or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto. Certain other legal matters will be passed upon for the Corporation by its counsel, Ropes & Gray LLP, San Francisco, California and for the Authority by the Honorable Edmund G. Brown, Jr., Attorney General of the State of California. Certain legal matters will be passed upon for the Underwriters by their counsel, Sidley Austin LLP, San Francisco, California. Bond Counsel and counsel to the Authority undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

The Corporation

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of the officers of the Corporation, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Corporation taken concerning the issuance or sale thereof or the execution and delivery of Obligation No. 28, or the pledge or application of any moneys or security provided for the payment of the Bonds.

The Corporation, like similar institutions, is subject to a variety of suits and proceedings arising in the ordinary course of business. For further discussion, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—LITIGATION AND REGULATORY MATTERS."

The Authority

To the knowledge of the officers of the Authority, there is no litigation of any nature now pending (with service of process having been accomplished) or threatened against the Authority restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Authority taken concerning the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the issuance of the Bonds.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings have assigned municipal bond ratings of "Aa3," "A+" and "AA-" for the Bonds. The ratings reflect the current assessment of each rating agency of the creditworthiness of the Corporation. Such ratings reflect only the view of each organization and any explanation of the significance of such rating may only be obtained from the rating agency furnishing the same. The Corporation has furnished to such rating agencies certain information and materials concerning the Bonds and itself. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that any of the ratings mentioned above will remain in effect for any given period of time or that the ratings might not be lowered or withdrawn entirely by the rating agency assigning any such rating, if in its judgment circumstances so warrant. As provided in the Continuing Disclosure Agreement and described above under "CONTINUING DISCLOSURE," only the Corporation has undertaken any responsibility to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of any of the ratings or to oppose any proposed revision or withdrawal thereof. Any downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

Concurrently with the issuance of the Bonds, Causey Demgen & Moore Inc., will deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by the Representative, relative to the sufficiency of moneys deposited into the escrow fund established pursuant to the Escrow Agreement to pay, when due the principal, interest and redemption premium requirements of the 1998 Series B Bonds. The report of Causey Demgen & Moore Inc. will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the aforesaid computations and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

INDEPENDENT ACCOUNTANTS

The financial statements as of August 31, 2009 and 2008 and for each of the two years then ended, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

No audited or unaudited financial statements for any period prior to the fiscal year ended August 31, 2008 have been included in this Official Statement. For management's discussion regarding pre-fiscal year 2008 financial statements, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information—Management's Discussion and Analysis."

UNDERWRITING

Pursuant to a Bond Purchase Contract (the "Purchase Contract"), Morgan Stanley & Co. Incorporated, as the Representative of the Underwriters, has agreed to purchase the Bonds at a purchase price of $310,291,489.25 (consisting of the aggregate par amount of the Bonds plus a net original issue premium of $14,236,489.25). The Corporation has agreed to pay the Underwriters underwriting compensation of $2,153,951.49 with respect to the Bonds. The Purchase Contract for the Bonds provides that the Underwriters will purchase all of the Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriters and the Authority against certain liabilities.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, as an Underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its underwriting efforts with respect to the Bonds.

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

RELATIONSHIPS AMONG THE PARTIES

Certain of the parties acting with respect to the offering, sale, issuance and securing of the Bonds (this "Transaction") act for parties related to the Corporation. Ropes & Gray LLP is acting as counsel to the Corporation in this Transaction. Ropes & Gray LLP also acts as outside counsel for Stanford University and LPCH. Orrick, Herrington & Sutcliffe LLP, which is acting as bond counsel to the Authority on this transaction, also acts as bond counsel on LPCH and Stanford University bond issues. PricewaterhouseCoopers LLP is the independent auditors of the financial statements of the Corporation, Stanford University and LPCH. Morgan Stanley, which is acting as an underwriter in this transaction, also acts as an underwriter for LPCH and Stanford University.

The Bank of New York Mellon Trust Company, N.A. ("BNY") is acting both as Bond Trustee and Master Trustee with respect to the Bonds. The Master Trustee is required under the Master Indenture to act for the benefit of all Holders of Obligations issued under the Master Indenture, and the Bond Trustee will be the Holder of Obligation No. 28. A conflict may arise in connection with BNY acting in both capacities.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Indenture, the Loan Agreement, the Master Indenture, Supplement No. 28 and the Continuing Disclosure Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of such documents may be obtained during the offering period upon request directed to the Corporation and thereafter upon request directed to the principal corporate trust office of the Bond Trustee.

This Official Statement has been delivered by the Authority and approved by the Corporation. This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the purchasers or holders of any of the Bonds.

The Authority has not provided any of the information in this Official Statement except for the information under the caption "THE AUTHORITY" and "LITIGATION—The Authority" and makes no representation, or warranty, express or implied, as to the accuracy or completeness of any other information in this Official Statement.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

By: /s/ Barbara J. Liebert
Executive Director

APPROVED:

STANFORD HOSPITAL AND CLINICS, a California nonprofit public benefit corporation

By: /s/ Daniel J. Morissette
Chief Financial Officer

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APPENDIX A

INFORMATION CONCERNING
STANFORD HOSPITAL AND CLINICS

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BACKGROUND AND ORGANIZATION

Introduction

Stanford Hospital and Clinics (the "Corporation") is a principal teaching affiliate of the Stanford University School of Medicine and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation services, orthopedics and neurosciences services. The Corporation, together with Lucile Salter Packard Children's Hospital at Stanford, operates the clinical settings through which the Stanford University School of Medicine (the "School of Medicine") educates medical and graduate students, trains residents and clinical fellows, supports faculty and community clinicians and conducts medical and biological sciences research.

The principal clinical facilities of the Corporation are the Stanford Hospital, a 613-licensed bed tertiary, quaternary and specialty hospital (the "Hospital"), and the primary, specialty and sub-specialty clinics (the "Clinics" and, together with the Hospital, the "Hospital and Clinics") in which the medical faculty of the School of Medicine provide clinical services. The Hospital and a majority of the Clinics are located on the campus of Stanford University adjacent to the School of Medicine in Palo Alto, California. Other Clinics are located elsewhere on the campus and off campus in neighboring communities. During the fiscal year ended August 31, 2009, the Corporation treated more than 48,000 patients in its emergency room, admitted more than 23,000 inpatients and recorded more than 263,000 outpatient transactions. From these patient care activities, the Corporation reported total revenues of $1.8 billion and income from operations of $95 million for the fiscal year ended August 31, 2009. At August 31, 2009, the Corporation's total assets were approximately $2.2 billion, total liabilities were approximately $1.4 billion and net assets were approximately $800 million.

The Corporation is solely responsible for the payment of principal of, redemption premium, if any, and interest on the Bonds. Neither Stanford University nor any of its affiliates other than the Corporation is obligated to pay debt service on the Bonds. Stanford University and the Corporation are not co-guarantors of the debt of each other, and the Corporation and Stanford University receive separate credit ratings from rating agencies.

Capitalized terms used and not otherwise defined in this Appendix A have the meanings set forth in the forepart of this Official Statement.

Corporate Organization and Related Entities

The Corporation is a California nonprofit public benefit corporation. It is exempt from federal income taxation as a charitable organization described in Section 501(c) (3) of the Internal Revenue Code of 1986, as amended (the "Code") and is not a private foundation as defined in Section 509(a) of the Code.

Set forth below is a listing of other entities to which the Corporation is related or in which it has interests and a brief description of the nature of those relationships or interests.

Stanford University ("Stanford University"). Stanford University, of which the School of Medicine is a part, is the sole member of the Corporation. As sole member of the Corporation, Stanford University elects all elected directors of the Corporation and has the power to amend the governing documents of the Corporation and to take certain other major actions with respect to the Corporation.

Lucile Salter Packard Children's Hospital at Stanford ("LPCH"). LPCH, a California nonprofit public benefit corporation and a tax-exempt organization, is the principal teaching affiliate of

the School of Medicine that provides pediatric and obstetric services. LPCH operates a 248-bed pediatric and obstetric hospital and related outpatient clinics on Stanford University's campus adjacent to the Corporation's Hospital and Clinics and in certain neighboring communities. LPCH purchases certain services from the Corporation and shares certain services with the Corporation. See "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University and LPCH" herein.

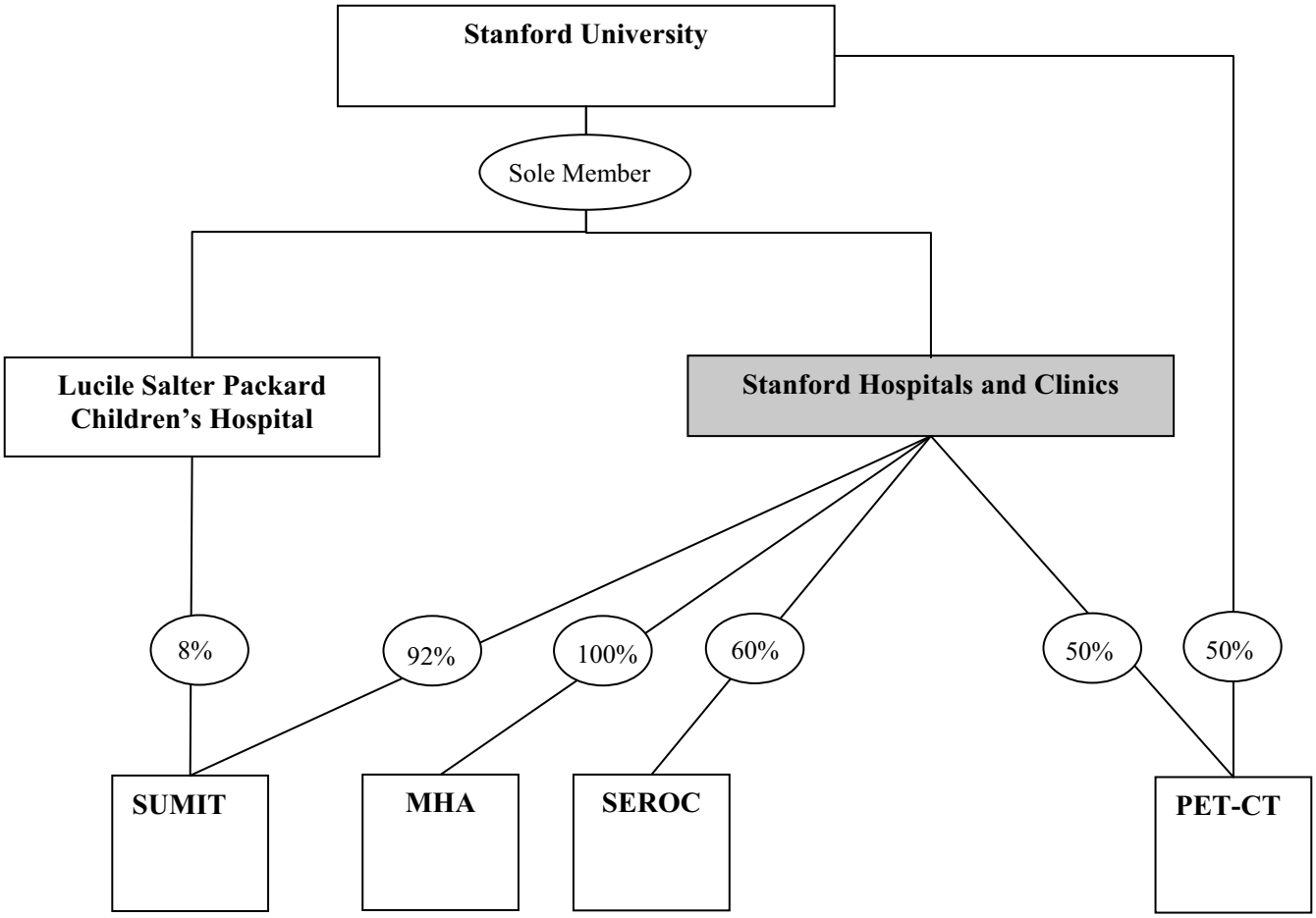
SUMIT Insurance Company Ltd. ("SUMIT"). SUMIT, a company organized and licensed under the laws and jurisdiction of Bermuda, provides claims-made liability coverage to the Corporation and LPCH for Healthcare Professional, Comprehensive General, Miscellaneous Errors/Omissions and Employment Practices liability. See "PROFESSIONAL LIABILITY AND OTHER INSURANCE" herein for additional information. The governing body of SUMIT consists of eight voting directors of whom, three are appointed by the Corporation, two by LPCH and the remainder by the appointees of the Corporation and LPCH. The sole shareholder of SUMIT is SUMIT Holding International LLC ("SHI"), a limited liability company organized and licensed under the laws and jurisdiction of Delaware and a tax-exempt organization. The Corporation and LPCH are the sole members of SHI.

Menlo Health Alliance, LLC ("MHA"). MHA, a California limited liability company, operates a multi-specialty medical clinic under the name "Menlo Medical Clinic." At Menlo Medical Clinic, physicians with academic appointments on the faculty of the School of Medicine provide care to patients. In addition, medical students, interns, residents and fellows of the School of Medicine receive training. The Corporation is the sole member of MHA.

Stanford PET-CT, LLC ("PET-CT"). PET-CT, a California limited liability company, provides radiological services, including positron emission tomography and computerized axial tomography scan services. The Corporation and Stanford University each appoint one-half of the members of the governing board of PET-CT and are its only members.

Stanford Emanuel Radiation Oncology Center ("SEROC"). SEROC, a joint venture between the Corporation and Emanuel Medical Center, operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities.

As of February 28, 2010, the relationships among the entities mentioned above with respect to voting interests are depicted in the following chart:



The Corporation is solely responsible for the payment of principal of, redemption premium, if any, and interest on the Bonds. Neither Stanford University nor any of its affiliates other than the Corporation is obligated to pay debt service on the Bonds. Stanford University and the Corporation are not co-guarantors of the debt of each other, and the Corporation and Stanford University receive separate credit ratings from rating agencies.

History of the Corporation

The Corporation has operated hospital facilities in Palo Alto continuously since 1958, except for the period from November 1997 through March 2000. During that period, the Hospital and Clinics were operated in a joint venture with The Regents of the University of California.

From 1958 to 1997. Stanford University and the City of Palo Alto organized the Corporation in 1957, and the Corporation began operation of Stanford University Hospital the following year, when Stanford University moved its School of Medicine from San Francisco to its present location on the Palo Alto campus. Until 1994, the clinics in which the School of Medicine faculty members conducted their medical practices were operated by Stanford University, and the Corporation assumed operation of the

Clinics in 1994. In 1997, the Corporation and LPCH began to formalize their relationship, with the Corporation becoming the sole member of LPCH.

1997 to 2000. In 1997, Stanford University and The Regents of the University of California (the "University of California") agreed to combine the separate health care facilities and services of the Corporation, LPCH and the University of California, San Francisco Medical Center ("UCSF") into a single clinical enterprise under the control of UCSF Stanford Health Care, a California nonprofit public benefit corporation organized with Stanford and the University of California as members. In connection with this combination, UCSF Stanford Health Care replaced the Corporation as a Member of the Obligated Group created under the Master Indenture.

On November 1, 1997, the Corporation transferred substantially all its assets, liabilities and operations to UCSF Stanford Health Care. Two years later, the parties agreed to terminate their affiliation. Termination took effect April 1, 2000 with the return of assets and operations to each entity that contributed them, together with liabilities related to those assets, including the debt service and payment obligations for the California Health Facilities Financing Authority Revenue Bonds (UCSF Stanford Health Care) 1998 Series B. In connection with the termination, the Corporation replaced UCSF Stanford Health Care as a Member of the Obligated Group.

2000 to Present. The Corporation resumed operating the Hospital and Clinics on April 1, 2000. On September 1, 2002, the Corporation transferred its interest and related net assets as sole corporate member of LPCH to Stanford University. As part of their ongoing operations, the Corporation and LPCH engage in certain related transactions described further in this Appendix A.

During the period since 2000, the Corporation has focused on strengthening its operating performance, developing initiatives with the School of Medicine, focusing on growth in strategic clinical services and providing high quality care to patients. In furtherance of those objectives, the Corporation has opened major clinical facilities on and off campus. On campus, the Corporation opened a 165,000 square-foot Cancer Center in March 2004, consolidating all outpatient cancer medical services into one facility, making treatment more convenient for patients and giving physicians greater opportunities to coordinate optimal patient care. Off campus, the Corporation opened an outpatient imaging center in 2008, which offers diagnostic imaging services, and opened a 360,000 square-foot facility named the Stanford Medical Outpatient Center (the "Outpatient Center") in 2009. The Outpatient Center provides short-stay procedures and other clinical services, with an orthopedic center being a core component of the facility. Other services relocated from the Hospital to the Outpatient Center include an imaging center, sleep center and dermatology center. In October 2009, the Corporation completed a multi-year upgrade of its clinical information systems. The Corporation has developed a master plan and applied for local and state approvals for a major facilities replacement project as described under the caption "Long-Range Financial Plan and Additional Capital Needs" herein.

Governance

Board of Directors. Pursuant to the bylaws of the Corporation, the Board of Directors (the "Board") is comprised of six ex-*officio* directors, who are occupants of the position specified below under occupation, and between seven and twenty-four elected directors as determined by Stanford University. Currently, the Board consists of six ex-*officio* directors and nineteen directors elected by Stanford University. Each director has one vote. Elected directors, except for the community physician noted below, serve for three-year terms commencing on January 1 or on such other date as specified by Stanford University. The community physician director represents the community for a one-year term commencing on January 1. The Board has three classes of directors that are equally sized to the extent possible, such that in each year the terms of the directors in only one class expire. Elected directors may

serve up to three consecutive three-year terms. At least one year must then elapse before such a director may be elected for an additional term. The current elected and ex-*officio* directors, the year of each director's commencement of service on the Board, the year of expiration of each director's current term and each director's occupation are as follows:

Name	Service Commenced	Year of Expiration of Current Term	Occupation
Marc Andreessen	2006	2012	Technology entrepreneur
Bryan Bohman, MD, *ex-officio*	2008	N/A	Chief of Staff
Susan L. Bostrom	2004	2010	Senior executive for a large public corporation
Mariann Byerwalter, Chair	1999	2012	Chairman of an advisory group
Bruce Cozadd	2004	2010	Chairman and CEO of a publicly traded pharmaceutical company
Christopher Dawes, *ex-officio*	2000	N/A	President and CEO, LPCH
John Freidenrich	2001	2012	Founder of a venture capital firm
Stephen Hearst	2008	2011	Philanthropist and director of a commercial real estate company
Joel Hyatt	2010	2012	Co-founder of a cable television channel
Ron Johnson	2008	2011	Executive for a large public corporation
John Levin	2009	2011	Attorney
John Lillie, *ex-officio*	2007	N/A	Chair, LPCH's Board of Directors
Martha Marsh, *ex-officio*	2002	N/A	President and CEO, Corporation
Albert Martin, MD	2002	2010	Health care consultant
John Morgridge	2008	2010	Chairman Emeritus of the board of a large publicly traded corporation
Woodrow A. Myers, MD	1996	2011	Health care consultant
Denise O'Leary	2000	2011	Private investor
Philip Pizzo, MD, *ex-officio*	2001	N/A	Dean, Stanford University School of Medicine
Christopher Redlich	2009	2012	Former Chairman and Owner of contract stevedore and terminal operating company
Kathryn Renschler, MD	2007	2010	Community Physician
Norman Rizk, MD, *ex-officio*	2001	N/A	Senior Associate Dean for Clinical Affairs, Stanford University School of Medicine
John Scully, Vice Chair	1999	2010	Founder and managing director of a private investment company
Peter Stamos	2002	2010	Founder, chairman and CEO of a private investment firm
Steve Young	2003	2012	Founder of a nonprofit corporation
William Younger	2007	2012	Managing director of a venture capital firm

Board Committees. The bylaws of the Corporation provide for an Audit and Compliance Committee (auditor control, supervision and selection) and Quality and Service Committee (service quality and patient safety), and permit the Board to create such other committees as it deems necessary for the effective governance of the Corporation. Pursuant to this power, the Board has created the following committees: Compensation, Credentials, Policies and Procedures, Development, Facilities, Finance, Information Technology, Investment, and Nominations and Governance. In addition, from time to time,

the Board may create one or more ad hoc committees to deal with such matters as the Board may delegate to such ad hoc committee.

Management

The bylaws of the Corporation provide for the positions of President (Chief Executive Officer), Chief Financial Officer and Chief Operating Officer. The Board is authorized to appoint the President from among candidates nominated by the President of Stanford University and following consultation with the President of Stanford University. The President of the Corporation is authorized to appoint the Chief Financial Officer and Chief Operating Officer and is also permitted to appoint and prescribe the duties of such additional officers as the President may deem proper. Biographical information on the current executive management group is set forth below.

Martha H. Marsh, President and Chief Executive Officer. Martha H. Marsh is the President and Chief Executive Officer of the Corporation. She is the past Chair of the Board of Trustees for the California Hospital Association and the California Association of Hospitals and Health Systems. Ms. Marsh serves on the National Infrastructure Advisory Council and in 2004 she was named by Modern Healthcare magazine as one of the nation's 100 most powerful people in healthcare. Ms. Marsh came to Stanford in April 2002 from the University of California at Davis where she served from 1999 to 2002 as the Chief Executive Officer of UC Davis Medical Center and the Chief Operating Officer of the UC Davis Health System. She holds an M.P.H. in Health Administration and an M.B.A. in Accounting from Columbia University.

Ms. Marsh intends to retire effective August 31, 2010. The Board has formed a search committee and hired an outside firm to perform a nationwide search for her successor.

Daniel A. Ginsburg, Chief Operating Officer. In January of 2009 Dan Ginsburg became the Corporation's Chief Operating Officer. Previously, Mr. Ginsburg was the Senior Vice President for Cancer and Women's Programs at Massachusetts General Hospital, where he also served as President and Chief Operating Officer of the Massachusetts General Physicians Organization. Massachusetts General Hospital is the oldest and largest teaching hospital affiliated with Harvard Medical School. Mr. Ginsburg received a M.B.A. from Harvard Business School and a B.A. in Biology from Harvard College. He began his career at the Boston Consulting Group, where he later served as senior manager of the firm's healthcare practice.

Daniel J. Morissette, Chief Financial Officer. Daniel Morissette became the Chief Financial Officer of the Corporation in August 2007. Prior to joining the executive team of the Corporation, Mr. Morissette served for four years as Senior Vice President, Finance and Strategy at the University of Toledo Medical Center and the University of Toledo upon the merger of the health system with the University. For 11 years, Mr. Morissette served in various senior management roles, including Senior Vice President and Chief Financial Officer, for FUHS/The Chicago Medical School. He serves on the audit and finance committee and formerly served on the operations and strategy committee of the University Healthsystem Consortium. Mr. Morissette is a Certified Public Accountant, holds a B.S. in Commerce, Concentration in Accountancy from DePaul University, and an M.B.A. in Finance and Policy Studies from the University of Chicago, Graduate School of Business.

Carolyn D. Byerly, Chief Information Officer. Carolyn Byerly became the Chief Information Officer of the Corporation in May 2002. Ms. Byerly has nearly 20 years of experience as a Chief Information Officer and Vice President of Information Services for healthcare institutions, including Lovelace Health System in Albuquerque, New Mexico, Mayo Clinic in Scottsdale, Arizona, Good

Samaritan Health System in San Jose, California and Children's Hospital at the University of California, San Francisco Medical Center.

Nancy J. Lee, Chief Nursing Officer, Vice President Patient Care Services. Nancy Lee joined the Corporation in 2002 as Vice President, Clinical Services and became the Chief Nursing Officer in April 2009. Prior to joining the Corporation, she worked at Daniel Freeman Hospitals, Inc. and was formerly Chief Operating Officer and Chief Nursing Officer of Tenet Health Systems. Ms. Lee has a M.S. in Nursing Administration and a B.S. in Nursing from California State University, Dominguez Hills, Carson, California.

Kevin Tabb, M.D., Chief Medical Officer. Kevin Tabb joined the Corporation as Chief Quality and Medical Information Officer in April 2005 and in January 2008 was promoted to a newly created position as the Vice President for Medical Affairs. Effective September 1, 2009, Dr. Tabb became the Corporation's Chief Medical Officer. From 2003 until joining the Corporation, Dr. Tabb was President of Clinical Data Services, a division of GE Healthcare Information Technologies. Dr. Tabb received his medical degree from Hebrew University and completed his residency at Hadassah Hospital in Jerusalem, Israel.

Sridhar Seshadri, Vice President for Radiation Oncology and Organizational Effectiveness. Sridhar Seshadri became Vice President for Process Excellence of the Corporation in June 2003 and was promoted to Vice President of Radiation Oncology and Organizational Effectiveness effective September 1, 2009. Prior to joining the Corporation, Mr. Seshadri was a Vice President and Partner at Cerner Consulting, and a Vice President and General Manager for General Electric Medical Systems, Healthcare Solutions. Mr. Seshadri has an M.B.A. from the Wharton School at the University of Pennsylvania and an M.S. in Electrical Engineering from Drexel University in Philadelphia, Pennsylvania.

Jenni Vargas, Vice President, Business Development and Strategic Planning. Jenni Vargas joined the Corporation in 2007 as Vice President Business Development and, in January 2008, Strategic Planning was added to her responsibilities. Prior to joining the Corporation, she worked at HealthNet of California, most recently as its Healthcare Delivery Officer. Ms. Vargas was formerly the Group Vice President for MedPartners Northern California Region, and Vice President and General Manager for Cigna Northern California. Ms. Vargas has a B.A. in Human Biology from Stanford University and a M.B.A. from the University of California-Los Angeles.

SERVICES, FACILITIES AND OPERATIONS

The Corporation operates the Hospital and Clinics both on the campus of Stanford University and in nearby communities. In 2009, U.S. News and World Report ranked the Hospital and Clinics as one of the nation's top twenty medical centers in cancer treatment, orthopedics, heart and heart surgery, kidney disease and other specialties.

Principal Patient Services

The Corporation provides comprehensive primary and secondary care to residents of the San Francisco Bay Area. In addition, the Corporation provides many highly specialized referral services to patients residing in northern California and the surrounding regions. See "SERVICES, FACILITIES AND OPERATIONS—Service Area" herein.

Since 2001, the Corporation has concentrated its planning, development and marketing on five Strategic Clinical Services (the "Strategic Clinical Services"): Cardiac Care, Cancer Treatment, Solid

Organ Transplantation (Abdominal), Orthopedics and Neurosciences. Historically, these services have been strengths of both the Hospital and Clinics and the School of Medicine. Such services are intensively focused on research and innovation, both strengths of the Corporation in management's view, and many procedures in these services lines are eligible for higher than average payments from third-party payors. Management planning, development and marketing efforts are directed toward establishing the Hospital and Clinics as a leading center in the United States in each of these Strategic Clinical Services. Brief descriptions of the five Strategic Clinical Services follow. For additional information on utilization of the Strategic Clinical Services for the three years ended August 31, 2009 and the six months ended February 28, 2009 and February 28, 2010, see "Utilization" herein.

Cardiac Care. The Hospital and Clinics are a referral center for the medical and surgical treatment of end-stage heart failure and aortic disease. Treatments available at the Hospital and Clinics include heart, heart/lung and lung transplants, aortic surgery, revascularization, implantation of mechanical pumps to replace heart muscle function as a temporary bridge to transplant and as a permanent therapy, stent placement, catheter ablation, internal cardioverter defibrillators and other electrophysiology treatments for heart rhythm problems, minimally invasive heart surgery and cardiac imaging. Breakthrough therapies, including new interventional devices to treat coronary artery disease and heart failure and to prolong the quality of heart muscle function, have also been developed as a part of this Strategic Clinical Service.

Cancer Treatment. The Corporation offers a multidisciplinary approach to the diagnosis and treatment of cancer, which brings together practitioners from a number of specialties, including medical and surgical specialties, radiation oncology, radiology and pathology. Specialty services include the treatment of cancers of the breast, gastrointestinal tract, head and neck, lung, and genitourinary tract, and gynecologic cancers, sarcoma and melanoma, as well as leukemia, lymphoma, and multiple myeloma. The bone marrow transplant program, specializing in the treatment of leukemia, Hodgkin's disease and lymphomas, is a significant part of the cancer treatment program. Many cancer treatments, particularly chemotherapy, are now performed in the Hospital and Clinics' ambulatory infusion treatment area, which is open 365 days a year. Treatment of brain cancer is also provided and is described below under "Neurosciences." The cancer clinical trials office oversees more than 250 active cancer related clinical trials providing patients access to experimental treatments.

The Corporation completed construction of the Cancer Center outpatient facility in 2004 and further expanded the facility in 2007. These additions have allowed the Corporation to consolidate cancer services for radiation oncology and gene therapies, as well as an ambulatory treatment and apheresis center, into one building.

Solid Organ Transplantation (Abdominal). Services provided include kidney, simultaneous kidney/pancreas, pancreas, liver and intestinal transplantation. Such surgical transplantation services are in addition to heart, heart/lung and lung transplant services described above under "Cardiac Care." All transplant programs utilize multi-disciplinary teams comprised of experts in transplant surgery, immunology and infectious disease. Patients benefit from research protocols and receive care and education from specialty-trained bedside nurses, transplant coordinators, social workers and rehabilitation personnel.

Orthopedics. Services provided include total joint replacements, sports medicine, hand and upper extremities, foot and ankle, spine, trauma, tumor, and psychiatry. The adult reconstructive team, also known as the total joint replacement team, develops and implements the protocols for recovery and return to productivity. The team also provides the latest in spine surgery to enable high degrees of mobility for patients who are otherwise immobilized through injury or pain and works closely with the multi-

disciplinary teams of rehabilitation services and pain management experts to serve the patient from pre-surgery through post-surgical recovery.

The opening of the Outpatient Center in February 2009 supports continued growth and expansion in the scope of the Corporation's orthopedic services and gives the Corporation an opportunity to develop and implement additional innovations in orthopedic care.

Neurosciences. Development of treatments for diseases of the brain are emphasized at the Hospital and Clinics. Neurosurgeons, neurologists, radiologists and other specialists collaborate at the Hospital to design and develop these treatments. Brain tumor patients have access to chemotherapy, biologic agent therapy and gene therapy, as well as radiation therapy, including CyberKnife (developed by School of Medicine faculty at the Hospital) for deep-seated brain tumors and brain metastases. An extensive cerebro-vascular surgery program, including neuro-interventional radiology, treats patients with aneurysms, complex vascular malformations, and stroke. The Corporation also offers medical and neurosurgical treatments for intractable epilepsy, aggressive acute treatment of stroke, movement disorders such as Parkinson's disease, spine care, pain management, multiple sclerosis, amyotrophic lateral sclerosis and other neuromuscular disorders.

Other Clinical Services. The Corporation is, in the view of management, a recognized leader in providing a number of other services, including primary care and internal medicine, treatment of asthma, treatment of blood disorders, management of critical care patients, dermatologic care for complex skin disorders and vascular malformations, diagnostic radiology, endocrinology, endocrine surgery, gastrointestinal medicine and surgery, genetics, care for hearing disorders and cochlear implants, treatment of hepatobiliary disease, HIV care, treatment of immunological disorders, treatment of female and male infertility, laboratory medicine and pathology, laparoscopic surgery, major joint replacements, maxillo/craniofacial surgery, nephrology, ophthalmology, pain management, psychiatry, interventional and neurointerventional radiology, rehabilitation, rheumatology and treatment of bone malformation and disease, plastic surgery, pulmonary medicine and treatment for sleep disorders, surgery for scoliosis and other spinal disorders, sports medicine, urology, vascular medicine and surgery and women's health.

Seismic Compliance

California's Hospital Seismic Safety Act (the "Seismic Act") requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as non-compliant must be retrofitted, replaced or removed from acute care service by applicable deadlines in 2013, 2015, or 2030. The California Office of Statewide Health Planning and Development ("OSHPD") has classified a substantial portion of the Hospital as compliant with seismic safety structural standards until 2030 and beyond. Patient care activities are located in facilities that are structurally compliant until 2030. However, these facilities have utility and other connections to facilities that are only compliant until 2013. Under prescribed circumstances OSHPD may grant hospitals a two-year extension from 2013 to 2015 to complete the construction of replacement facilities.

The Corporation has developed a master plan and applied for local and OSHPD approvals to replace major portions of the Hospital for the purposes of updating facilities and complying with seismic safety requirements of California law. The master plan contemplates construction of new facilities over a five-year period to be located adjacent to the existing Hospital. See "Long-Range Financial Plan and Additional Capital Needs" herein. The construction period required for completion of the replacement facilities project as currently contemplated will extend beyond the statutory deadlines above. Accordingly, the Corporation has joined with other health care systems in California to seek legislative relief in the form of extended deadlines and modifications of the existing seismic requirements.

In light of uncertainties in the timing of approvals, the duration of construction of the new hospital, and other factors, the Corporation has also developed contingency plans to retrofit portions of noncompliant facilities in order to reduce the duration of service disruptions and closures of bed units should such action be required. If undertaken, the preliminary estimated construction cost of such retrofitting currently ranges between $200 million and $300 million. The Corporation has not submitted the contingency plans to OSHPD as it is pursuing approval of the replacement facilities as its preferred plan. Due to the complexity, continued development and interpretation of seismic compliance regulations, it is unclear whether the retrofitting could meet the requirements of the Seismic Act by 2013.

Long-Range Financial Plan and Additional Capital Needs

Management of the Corporation has developed a ten year, long-range plan for the funding of the replacement facilities project and other capital expenditures. The replacement facilities would provide both additional inpatient bed capacity and outpatient surgical and diagnostic capacity designed to support growth of tertiary services and Strategic Clinical Services. Management currently estimates the cost of constructing and equipping the replacement facilities at approximately $2 billion. Assuming necessary local entitlements and other approvals are obtained, construction of the replacement facilities is expected to occur over a five-year period beginning in 2013. There is no assurance that such approvals will be granted in a timely manner. Additionally, the long-range plan includes an estimate of approximately $1 billion for other capital enhancements, including upgrades to existing facilities to meet seismic safety requirements contemplated over the next ten years.

Management currently estimates expenditures on capital improvements, including costs related to the replacement facilities project, to be approximately $150 million in fiscal year 2010, $200 million in fiscal year 2011 and $180 million in fiscal year 2012, subject to annual budget review and approvals. Funding sources for the capital improvement program include cash flows from operations, investment income, debt (currently estimated at approximately $650 million) and philanthropy. Capital plan expenditures remain subject to the review and approval of the Corporation's Board in light of the priorities, debt capacity and resources of the Corporation, and accordingly are subject to material change.

The School of Medicine

The Stanford University School of Medicine was established in 1908 as a part of Stanford University and today is one of the pre-eminent schools of medicine in the United States. In 2009 U.S. News and World Report ranked the School of Medicine sixth nationally (in a tie) among research-oriented medical schools based upon peer assessment surveys. The School of Medicine offers an M.D. program; M.A. and Ph.D. programs in various areas of biosciences; intern and residency programs at the Corporation and LPCH and a Medical Scientist Program in which students earn both an M.D. and Ph.D.

The mission statement of the School of Medicine is in part "…to be a premier research-intensive medical school that improves health through leadership and a collaborative approach to discovery and innovation in patient care, education and research…." A specific strategic goal of the School of Medicine is to be a leader in the clinical application of knowledge acquired and scientific innovations achieved through research at the School of Medicine. The Hospital and Clinics provide the settings where these clinical applications are delivered to adult patients.

Joint Strategic Initiatives. The School of Medicine and the Corporation collaborate on strategies addressing areas of clinical excellence and patient satisfaction and on a variety of initiatives in translational medicine.

Collaborations between the School of Medicine and the Corporation include:

A Council of Clinical Chairs, co-chaired by the Senior Associate Dean for Clinical Affairs of the School of Medicine and the Corporation's Chief Operating Officer. The Council includes the chairs of the 17 departments of the School of Medicine as well as key officers of the Corporation.

Joint planning involving the School of Medicine, other components of Stanford University and the Corporation to integrate the clinical services, business needs and information technology priorities.

Coordination of development and philanthropy for the mutual benefit of the two institutions.

Collaboration in protecting the privacy and security of patient health information.

Clinical Services and outreach clinics with select community hospitals.

The School of Medicine has undertaken to improve the position of the Hospital and Clinics in the Strategic Clinical Services and other tertiary and quaternary services. The School of Medicine has created four Institutes that align research, education and clinical efforts, including the Stanford Institute for Stem Cell Biology and Regenerative Medicine, the Stanford Cardiovascular Institute, the Neuroscience Institute at Stanford, and the Immunology, Transplantation and Infection Institute. The School of Medicine also plans to develop inter-departmental clinical centers such as a vascular center to promote linkage between the School of Medicine and the Hospital and Clinics in the care delivered to the patient.

Operational Relationships Among the Corporation, Stanford University and LPCH

Purchased Services from the School of Medicine. Services provided at the Hospitals and Clinics by the School of Medicine include emergency room physician coverage, medical direction and professional clinical services, which are covered by a Professional Services Agreement ("PSA") with the School of Medicine. The expenses for these services are included in purchased services in the consolidated statements of operations and changes in net assets and were approximately $249 million for the year ended August 31, 2009.

The compensation methodology in the PSA is based on productivity and degree of complexity of the clinical procedures performed. Under the PSA, the payment to the School of Medicine is calculated using the volume of clinical work relative value units. As the School of Medicine achieves the strategic goal of seeing more patients, it is expected that the payment to the School of Medicine for services will increase.

Other Transactions with Stanford University. Services provided by Stanford University include telecommunications, transportation, utilities, blood products, and certain administrative services, which include legal, internal audit and risk management. The Corporation's cost of such services for the fiscal year ended August 31, 2009 was approximately $86 million and is reflected in various expense categories in the consolidated statement of operations and changes in net assets.

Transactions with LPCH. The Corporation and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. The costs for these shared services are allocated between the Corporation and LPCH based on negotiated rates. For the fiscal year ended August 31, 2009, the total cost of shared services departments was approximately $141 million, of which approximately $20 million

was reimbursed by LPCH. The reimbursement from LPCH is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

The Corporation also provides various services to LPCH, including operating room facilities and services, cardiac catheterization, interventional radiology, radiation oncology and laboratory services. The Corporation charges LPCH for the services and products purchased by LPCH based on either (i) a percentage of charges intended to approximate actual cost or (ii) on the basis of actual cost per procedure. Reimbursement from LPCH for purchased services provided by the Corporation totaled approximately $53 million for the year ended August 31, 2009 and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other Related Party Transactions. For additional information concerning related party transactions, see Note 12 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Bed Complement

As of August 31, 2009, the licensed and operational bed complement of the Corporation was allocated among the following services:

TABLE 1

Bed Complement by Service as of August 31, 2009

	Number of Beds	
Service	**Licensed**	**Operational**
Medical/Surgical	491	370
Intensive Care	67	58
Rehabilitation	17	0[1]
Coronary Care	8	8
Psychiatric	30	30
Total	613	466

[1] Between August 31, 2008 and May 2009, the Corporation ceased operation of its rehabilitation service, including the 17 rehabilitation beds, to add 27 additional medical/surgical beds.

Source: Corporation Records.

Description of Admitting Medical Staff

As of August 31, 2009, the admitting medical staff of the Corporation was comprised of 1,798 physicians. Each member of the admitting medical staff is assigned to one of the medical staff departments (such as surgery) and is granted hospital privileges to treat patients in accordance with his/her experience, training and professional capabilities. Twelve hundred and forty-seven members of the admitting medical staff (approximately 66% of the total staff) are full-time members of the faculty of the School of Medicine and 631 members of the admitting medical staff are community physicians (approximately 34% of the total staff). Approximately 80% of the Corporation's admitting medical staff members are board certified in their respective specialties. The following table shows members of the admitting medical staff by specialty, average age and board certification.

TABLE 2

Medical Staff Composition
as of August 31, 2009

Specialty	Number of Staff	Average Age	Number of Staff Who are Board Certified	Percentage of Staff Who are Board Certified
Anesthesia	178	46	123	69.1%
Cardiothoracic Surgery	30	50	23	76.7
Dermatology	38	50	35	92.1
Diagnostic Radiology	130	48	111	85.4
Medicine	485	48	423	87.2
Neurology	56	49	44	78.6
Neurosurgery	28	45	15	53.6
Obstetrics & Gynecology	105	46	78	74.3
Ophthalmology	72	51	66	91.7
Orthopaedic Surgery	86	46	63	73.3
Otolaryngology/Head&Neck	62	46	44	71.0
Pathology	52	50	48	92.3
Pediatrics	79	48	66	83.5
Psychiatry	181	52	115	63.5
Radiation Oncology	16	48	14	87.5
Surgery	178	47	147	82.6
Urology	22	49	20	90.9
Totals	1,798		1,435	
Average Age		48		
Average Percentage				79.8%

Source: Corporation Records.

The following table shows the number of admitting medical staff physicians in each indicated age group, the percentage of the total admitting medical staff for each age group and the percentage of admissions for each age group for the fiscal year ended August 31, 2009.

TABLE 3

Admissions by Physician Age Group
For the Fiscal Year Ended August 31, 2009

Age Group	Number of Physicians in Age Group	Percent of Physicians in Age Group	Percent of Total Admissions
25-34	197	11.0%	7.2%
35-44	616	34.3	43.1
45-54	451	25.1	26.5
55-64	354	19.7	19.4
65+	180	10.0	3.9
Total	1,798	100.0%	100.0%

Source: Corporation Records.

The following table shows the top ten admitters based on patient admissions and listed by specialty for the fiscal year ended August 31, 2009.

TABLE 4

Top Ten Admitting Physicians Based on Patient
Volume For the Fiscal Year Ended August 31, 2009

Rank	Physician Specialty	Admissions	Age
1.	Neurosurgery	401	57
2.	Orthopedic Surgery	376	58
3.	General Surgery	314	62
4.	General Surgery	305	66
5.	General Surgery	294	44
6.	General Surgery	287	49
7.	Orthopedic Surgery	262	57
8.	General Surgery	255	52
9.	Orthopedic Surgery	251	38
10.	Psychiatry	243	45
	Total Admissions	2,988	
	Average Age		53

Source: Corporation Records.

Service Area

The Corporation has classified its service area into the four geographical markets identified below. In the Regional, California and National/International Markets, the Corporation provides primarily tertiary and quaternary care. The composition of these markets is described below:

Local Market—San Mateo and Santa Clara counties.

Regional Markets

- East Bay—Alameda, Contra Costa, and Solano counties
- Central Coast—Monterey, San Benito, San Luis Obispo, Santa Cruz counties
- Central Valley—Madera, Fresno, Kings, Merced, Sacramento, San Joaquin, Stanislaus and Tulare counties
- North Bay—Sonoma, Marin, Napa and San Francisco counties

California Market—Counties north and south of the Regional Markets

National and International Markets—Nevada and the Pacific Northwest are the predominant sources of national cases; Asia Pacific countries are the predominant sources of international cases.

San Mateo and Santa Clara counties comprise the Local Market for the Corporation. This two-county area has been historically the predominant source of inpatient volume for the Hospital and Clinics, accounting for about 55% of inpatient volume.

The table below provides the following information by geographic region: (1) contribution to the Corporation's patient volume and a break-down of patient charges; (2) actual and projected population and projected population change; and (3) median age and average household income.

TABLE 5

Clinics Volume and Revenues and Certain Demographic Information

	Calendar Year 2008[1]						
Local and Regional Markets	**Percent of Outpatient Volume**	**Percent of Charges**	**Actual Population**	**Projected Population 2014**	**Projected Percent Population Change**	**Median Age 2009**	**Average Household Income 2009**
Local Market	55.1%	45.3%	1,919,720	2,000,446	4.2%	40	$118,234
Regional Market:							
East Bay	11.5	12.7	2,246,276	2,372,547	5.6	38	93,321
Central Coast	8.3	9.7	763,063	795,192	4.2	38	82,084
Central Valley	10.6	14.2	3,263,676	3,616,890	10.8	34	60,869
North Bay	2.8	3.1	1,350,973	1,397,117	3.4	43	99,349
Outside Local and Regional Markets	11.7	15.0	–	–	–	–	–
	100%	100%					

(1) Most recent year for which data is available.

Source: Thomson Reuters The Market Planner Plus. Data includes 18+ population only.

The following table provides the discharge data for calendar years 2006, 2007 and 2008 (the most recent years for which such data are available) for the Corporation and the hospitals in and near the Local Market, which management has identified as competitors of the Corporation. Table 6 also provides case mix index data for calendar year 2008 (the most recent year for which such data are available). The case mix index (the "Case Mix Index") is an indicator of the complexity and intensity of the services provided.

TABLE 6

Local Market Area and Selected Regional Market Competitors
Discharges and Case Mix Index Data

	Calendar Year 2006		Calendar Year 2007		Calendar Year 2008		CY 2008
	Discharges	% of total	Discharges	% of total	Discharges	% of total	Case Mix Index
Stanford Hospital	12,696	7.2%	13,029	7.3%	12,808	7.0%	1.72
Santa Clara Valley Medical Center	19,982	11.3	19,513	10.9	19,068	10.5	1.09
El Camino Hospital	14,968	8.4	14,771	8.3	15,053	8.3	1.18
Kaiser Foundation Hospital - Santa Clara	16,392	9.3	15,290	8.6	15,237	8.4	1.31
Good Samaritan Hospital - San Jose	14,046	7.9	14,644	8.2	14,491	8.0	1.32
Mills-Peninsula Medical Center	13,693	7.7	13,328	7.5	13,474	7.4	1.26
O'Connor Hospital	12,739	7.2	12,991	7.3	13,331	7.3	1.19
Kaiser - Santa Teresa Community Hospital	10,532	5.9	11,831	6.6	12,165	6.7	1.22
Regional Medical Center of San Jose	9,134	5.2	8,784	4.9	10,413	5.7	1.46
Seton Medical Center	7,218	4.1	7,441	4.2	7,028	3.9	1.44
Sequoia Hospital	6,499	3.7	6,559	3.7	6,948	3.8	1.33
Kaiser – Redwood City	5,411	3.1	5,373	3.0	6,102	3.4	1.34
Kaiser – South San Francisco	4,904	2.7	4,896	2.7	4,904	2.7	1.39
Community Hospital of Los Gatos	3,064	1.7	3,545	2.0	4,033	2.2	1.34
San Mateo County General Hospital	3,770	2.1	3,730	2.1	3,806	2.1	1.12
California Pacific Medical Center [1]	2,238	1.3	2,341	1.3	2,438	1.3	1.29
University of California San Francisco Medical Center [1]	2,048	1.2	2,000	1.1	2,016	1.1	1.98
All Other Hospitals	17,821	10.1	18,726	10.5	18,621	10.3	
Total discharges	177,155		178,792		181,936		

[1] Although not actually within the Local Market boundaries, Corporation management identifies as a competitor comparable to other competitors within the local market.

[2] Other hospitals include all hospitals utilized by residents of San Mateo and Santa Clara counties.

Data includes all 18+ Local Market and selected Regional Market patients; Case Mix Indices (CMI) are based on Thompson Reuters 2008 MSDRG weights. CMI based on Local Market and selected Regional Market adult inpatient discharges only.

Source: Thomson Reuters The Market Planner Plus.

As indicated in the Case Mix Index data in Table 6, the Corporation has a substantially higher Case Mix Index than all but one of the identified competitor hospitals. Competitor hospitals in the Local Market primarily focus on lower complexity and intensity cases. While also providing a significant amount of care at this level, the Corporation also cares for the sickest patients and most challenging cases in and near the Local Market, many of which are transferred to the Hospital and Clinics from other local hospitals. In large part, the most acute and difficult cases come to the Hospital and Clinics because the Hospital and Clinics, together with the UCSF, are the only hospitals in the San Francisco Bay Area to

offer many of the treatments and procedures necessary for these patients. Management's strategic decision to concentrate on the five Strategic Clinical Services reflects its opinion that higher acuity services will produce higher operating margins than lower acuity services.

Several of the Corporation's competitors have announced or commenced expansion plans in Santa Clara and San Mateo counties:

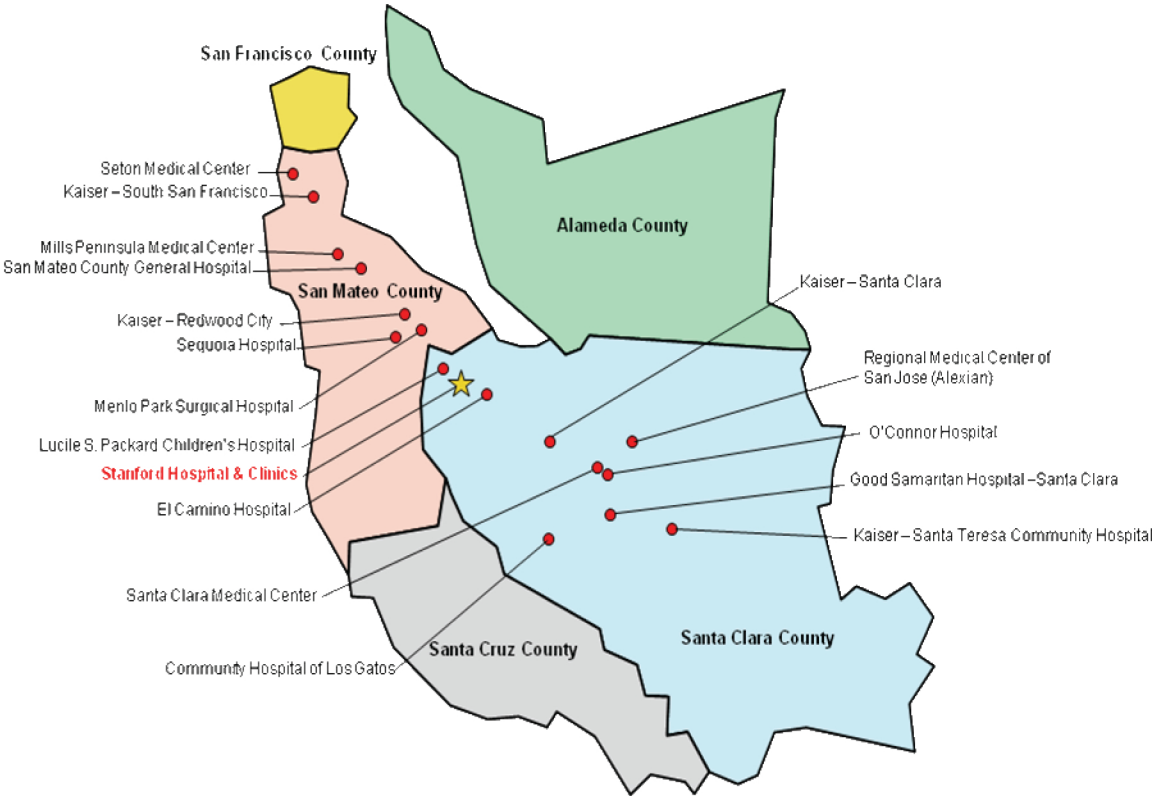
Sequoia Hospital, an acute care hospital in Redwood City operated by Catholic Healthcare West, has commenced construction on a hospital replacement and retrofit project. The redesigned campus will feature a new 167-bed hospital facility. The retrofit of the campus and completion of all projects is estimated to be complete by Spring 2013.

The Palo Alto Medical Foundation, an affiliate of Sutter Health, plans to construct a medical campus in San Carlos, 9.8 miles from the Hospital. The announced construction plans include medical offices, laboratory and radiology services, emergency care and a 97-bed, full-service, acute care hospital. The campus plans to open by 2012.

Mills-Peninsula Health Services, an affiliate of Sutter Health, is constructing a 243-bed replacement hospital in Burlingame. The hospital will be integrated with a medical office campus. The current flagship facility, Peninsula Medical Center, does not meet California state seismic standards. Completion of the project is scheduled for November 2010.

Service Area Map

Below is a map of the general service area of the Corporation, including portions of the Local and Regional Market areas.



Market Strategy

Overall, the Corporation's strategic plan calls for near-term intensive growth in the Strategic Clinical Services and other services in which the Corporation has demonstrated distinction, focusing on specific services in specific markets based upon services then available in such markets and other factors. The strategic plan also calls for strengthening Local Market presence. This strategy is intended to promote growth in higher acuity inpatient and outpatient procedures.

A principal focus of the strategic plan is the five Strategic Clinical Services: Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal), Orthopedics and Neurosciences. The Corporation's goal is to grow inpatient and outpatient volume and expand national/international distinction in these services. The growth strategy is based on leveraging the Corporation's clinical innovations already being applied in these services. See "The School of Medicine" herein. The growth strategy also provides for more rapid translation of faculty research into clinical care. Leverage strategies are expected to be tailored to the opportunities in each market, and are expected to include selective partnering with other institutions, management of subspecialty services for other institutions, development of outreach infrastructures that include both onsite and web-based delivery of care, and expanded contracting with payers for selected clinical services.

The Corporation's strategic plan envisions sustaining and increasing the share of the Corporation's patient care volume and revenue derived from higher-complexity tertiary and quaternary cases in the Regional, California and National, and International markets, while strengthening the Corporation's presence in the Local Market through delivery of outpatient subspecialty services in selected local communities.

The following strategies of the Corporation and the School of Medicine are intended to increase higher-complexity tertiary and quaternary cases:

- Developing more complex treatments and therapies in both inpatient and outpatient settings.
- Focusing on the more complex and challenging treatment modalities within the Strategic Clinical Services.
- Focusing growth strategies on new services and more advanced treatments and methodologies.
- Current actions being taken to implement these strategies include:
- In the Cardiac Care Strategic Clinical Service, concentrating on more complex and difficult revascularization procedures, such as coronary artery bypass graft and percutaneous transluminal coronary angioplasty procedures.
- In the Cancer Treatment Strategic Clinical Service, emphasizing the distinctive treatments provided by the Corporation, including bone marrow transplants, radiation therapy, and minimally invasive surgery techniques.
- In the Solid Organ Transplantation (Abdominal) Strategic Clinical Service, emphasizing living donor approaches in liver transplantation and new immuno-suppressant therapies, as organ supply permits.

- In the Orthopedic Strategic Clinical Service, emphasizing total joint replacements, sports medicine, hand and upper extremities, foot and ankle, spine, trauma, tumor, and physiatry.

- In the Neurosciences Strategic Clinical Service, emphasizing chemo, biologic agent and gene and radiation therapies, including the CyberKnife, for spine care and neuro-oncology.

The Corporation, LPCH and the School of Medicine are developing plans to organize certain community-based physicians into a service area-based physician/hospital foundation network. To implement this initiative, the parties contemplate forming a nonprofit corporation which would provide office facilities, information technology and other practice support. The Corporation is currently in active discussions with community-based physicians regarding joining the proposed foundation and anticipates seeking Board approval for this initiative in June 2010. Current plans contemplate that the Corporation would fund working capital and other startup costs for, and transfer the Corporation's membership interest in Menlo Health Alliance to, the proposed foundation. The total cost of the proposed foundation is contingent upon the number of physicians who join and negotiated terms. Additionally, the Corporation is in discussions with other community-based physicians regarding extending the Corporation's electronic medical record system to community physician practices.

Utilization

A summary of significant statistical data for the Corporation for the three fiscal years ended August 31, 2007, 2008 and 2009 and for the six-month periods ended February 28, 2009 and February 28, 2010 is presented in the following table.

TABLE 7

Historical Utilization

	Fiscal Years Ended August 31,			For the Six Months ended	
	2007	2008	2009	February 28, 2009	February 28, 2010
Discharges					
Acute	22,063	22,075	22,909	11,032	11,345
Behavioral Health	865	797	900	434	427
Rehabilitation/Skilled Nursing	306	292	–(1)	–(1)	–(1)
Total	23,234	23,164	23,809	11,466	11,772
Patient Days					
Acute	119,683	122,759	126,501	61,188	61,805
Behavioral Health	8,821	8,928	8,590	4,228	4397
Rehabilitation/Skilled Nursing	4,409	3,736	–	–	–
Subtotal	132,913	135,423	135,091	65,416	66,202
Short Stay Outpatient	6,581	6,620	6,126	3,033	3,307
Total	139,494	142,043	141,217	68,449	69,509
Average Daily Census					
Acute	327.9	335.4	346.6	338.1	341.5
Behavioral Health	24.2	24.4	23.5	23.4	24.3
Rehabilitation/Skilled Nursing	12.1	10.2	–	–	–
Total	364.2	370.0	370.1	361.5	365.8
Average Length of Stay					
Acute	5.4	5.6	5.5	5.5	5.4
Behavioral Health	10.2	11.2	9.5	9.7	10.3
Rehabilitation/Skilled Nursing	14.4	12.8	–	–	–
Average	5.7	5.8	5.7	5.7	5.6
Case Mix Index	1.89	1.96	1.98	1.96	1.96
Emergency Room Visits	44,078	46,156	48,840	23,214	25,679
Short Stay Outpatient Procedures	21,711	21,940	24,192	11,451	12,538
Other Outpatient Visits(2)	256,196	256,358	263,733	126,466	163,893
Surgeries					
Inpatient	11,184	11,453	11,514	5,546	5,837
Outpatient(3)	10,712	11,179	11,830	5,598	6,370
Total	21,896	22,632	23,344	11,144	12,207

(1) Reflects elimination of rehabilitation services.
(2) Actual visits will be more; these amounts are billing events which may include multiple visits.
(3) Psychiatry and LPCH cases have been excluded.

Source: Corporation Records.

SUMMARY OF FINANCIAL INFORMATION

The following consolidated statements of operations and changes in net assets for the fiscal years ended August 31, 2007, 2008 and 2009 have been derived from the Consolidated Financial Statements of Stanford Hospital and Clinics and Subsidiaries included in Appendix B to this Official Statement. (For additional information concerning the Subsidiaries included in the consolidated financial statements, see Note 1 of such consolidated financial statements). The consolidated financial statements which are included in Appendix B have been audited by PricewaterhouseCoopers LLP, independent accountants. The information for the six-month periods ended February 28, 2009 and February 28, 2010 has been derived by management from financial statements of the Corporation for such periods. Such consolidated financial statements are unaudited but in the opinion of the management of the Corporation fairly reflect the results of operations for such interim periods and are presented on a basis consistent with the audited consolidated financial statements of the Corporation contained in Appendix B. The summary of the three fiscal years ended August 31, 2009 should be read in conjunction with the audited consolidated financial statements and related notes thereto included in Appendix B to this Official Statement.

The results of MHA, SEROC and SUMIT in the aggregate are consolidated with those of the Corporation for all periods. The financial results of PET-CT are reported using the equity method of accounting. In management's view, the assets, liabilities and results of operations and changes in net assets of the subsidiaries are not material to the Corporation. MHA, SEROC and SUMIT represent in aggregate less than 3% of the Corporation's consolidated assets, total revenues and income from operations. They are not Members of the Obligated Group nor otherwise obligated with respect to the Bonds.

TABLE 8

Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Fiscal years ended August 31[1]			For the six months ended	
	2007	2008	2009	February 28, 2009	February 28, 2010
Operating Revenues					
Net patient service revenue	$ 1,459,744	$ 1,578,755	$ 1,741,856	$ 842,778	$ 906,260
Premium revenue	20,205	20,755	22,960	10,359	7,270
Other revenue	48,788	51,225	57,666	27,408	32,735
Net assets released from restrictions used for operations	4,379	4,816	5,195	2,864	2,004
Total operating revenues	1,533,116	1,655,551	1,827,677	883,409	948,269
Operating Expenses					
Salaries and benefits	638,789	714,856	787,035	379,557	403,033
Professional services	23,323	24,713	22,842	10,131	10,330
Supplies	224,996	235,542	265,139	124,780	126,828
Purchased services	361,475	385,273	434,257	208,435	219,962
Provision for doubtful accounts	44,733	51,578	53,859	25,927	41,821
Depreciation and amortization	44,287	65,812	73,876	34,344	46,746
Interest	22,988	26,334	37,921	17,681	18,959
Other	99,889	120,382	139,385	72,521	74,320
Expense recoveries from related parties	(65,437)	(74,184)	(81,317)	(42,945)	(38,680)
Total operating expenses	1,395,043	1,550,306	1,732,997	830,431	903,319
Income from operations	138,073	105,245	94,680	52,978	44,950
Interest and investment income	30,907	21,824	3,814	3,747	2,121
Increase (decrease) in value of University managed pools	80,595	9,720	(146,481)	(151,074)	44,464
Interest rate swaps mark-to-market adjustments	(1,302)	(42,600)	(48,338)	(94,330)	11,568
Loss on extinguishment of debt	–	(17,855)	–	–	–
Excess (deficit) of revenues over expenses	248,273	76,334	(96,325)	(188,679)	103,103
Other changes in unrestricted net assets:					
Transfer to Stanford University	(6,776)	(7,670)	(8,049)	(4,956)	(3,419)
Transfer (to) from Lucile Salter Packard Children's Hospital	(14,352)	(2,808)	288	–	–
Change in net unrealized (losses) gains on investments	(278)	227	237	(245)	405
Net assets released from restrictions used for purchase of property and equipment	1,360	599	460	31	4,979
Change in pension liability and postretirement	3,593	(2,212)	(75,101)	–	–
Change in fair value of interest rate swaps	438	–	–	–	–
Increase (decrease) in unrestricted net assets before discontinued operations and cumulative effect of change in accounting principle	232,258	64,470	(178,490)	(193,849)	105,068
(Loss) income from discontinued operations	(23,869)	890	–	–	–
Cumulative effect of change in accounting principle	11,613	–	–	–	–
Increase (decrease) in unrestricted net assets	220,002	65,360	(178,490)	(193,849)	105,068
Changes in temporarily restricted net assets:					
Transfer from Stanford University	–	–	15,167	12,692	180
Contributions	31,240	8,508	5,606	2,998	2,500
Investment income	569	586	98	39	8
Gains and losses on University managed pools	2,511	1,161	(1,415)	(2,395)	643
Net assets released from restrictions for:					
Operations	(4,379)	(4,816)	(5,195)	(2,864)	(2,004)
Purchase of property and equipment	(1,360)	(599)	(460)	(31)	(4,979)
Increase (decrease) in temporarily restricted net assets	28,581	4,840	13,801	10,439	(3,652)
Changes in permanently restricted net assets:					
Contributions	1,920	981	–	–	–
Increase in permanently restricted net assets	1,920	981	–	–	–
Increase (decrease) in net assets	250,503	71,181	(164,689)	(183,410)	101,416
Net assets, beginning of year	650,011	900,514	971,695	971,695	807,006
Net assets, end of year	$ 900,514	$ 971,695	$ 807,006	$ 788,285	$ 908,422

[1] Certain reclassifications have been made to the audited consolidated financial statements for the fiscal years 2007 and 2008 to conform to current year presentation.

Source: Corporation Records.

Management's Discussion and Analysis

In the following narrative, dollar amounts and percentages have been rounded in some cases to simplify the presentation of information; in management's view, such amounts are stated materially accurately. More specific dollar amounts are set forth in the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Accounting Policies; Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management evaluates its estimates on an ongoing basis and makes changes to the estimates as experience develops or new information becomes available. Actual results could differ from those estimates.

The most significant estimates relate to patient accounts receivable allowances, amounts due to third party payors, retirement plan obligations, and self insurance reserves. For additional information on the Corporation's use of estimates, please see the notes to the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Historical Performance

For the three years ended August 31, 2009, the Corporation continued to strengthen its financial position to support investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves. The cumulative Income from Operations before investment income for the three years ended August 31, 2009 was $338 million. Cumulative Investment Income for the three years ended August 31, 2009 was $379 thousand. The cumulative increase in Net Assets for the three years ended August 31, 2009 was $157 million. Cumulative capital expenditures for the three years ended August 31, 2009 were $614 million.

Financial Performance for the Six-Month Period Ended February 28, 2009 and February 28, 2010

During the six-month period ended February 28, 2010, the Corporation completed the implementation of the clinical information system. The system provides an electronic medical record for patients that will help promote patient safety, quality, care management, and patient communication.

During the six-month period ended February 28, 2009, the Corporation continued with Phases II and III of the clinical information system, ceased operations of its rehabilitation services to begin the construction project to expand bed capacity of acute inpatient beds and opened the Outpatient Center.

Income generated from operations before depreciation and interest expense for the six-month period ended February 28, 2010 was $111 million as compared to $105 million for the six-month period ended February 28, 2009. The Corporation reported income from operations before investment income of $45 million, versus $53 million for the six-month period ended February 28, 2009. Primarily due to the implementation of Phases II and III of the clinical information system and completion of the Outpatient

Center, depreciation expense increased to $47 million from $34 million for the six-month periods ended February 28, 2010 and 2009, respectively. Net patient revenues included in income from operations increased by 8%, or $63 million. Volume increased for the period ended February 28, 2010 with patient days of 69,509 versus 68,449 for the period ended February 28, 2009.

Investment income and the change in value of Stanford University managed pools was $47 million for the period ended February 28, 2010 versus negative $147 million for the period ended February 28, 2009. The fair value of the interest rate swaps increased by $12 million and decreased by $94 million for the periods ended February 28, 2010 and 2009, respectively. As a result, the Corporation's net assets increased by $101 million and decreased by $183 million for the periods ended February 28, 2010 and 2009, respectively.

Financial Performance in Fiscal Year 2009

Despite income from operations of $95 million, the Corporation's net assets decreased $165 million to $807 million at August 31, 2009. In 2009, the Corporation generated a $96 million deficiency of revenues over expenses compared to an excess of revenues over expenses of $76 million in 2008. Investment income and change in value of Stanford University managed pools decreased by $174 million from the fiscal year ended August 31, 2008, resulting in a loss of $143 million due to negative returns on the Corporation investments held through Stanford University.

Net patient revenues increased by 10% to $1.7 billion in fiscal year 2009. Inpatient revenues, which make up 54% of total revenue, grew by 9% on continuing increases in patient volume. Outpatient revenues increased by 12%, accounting for 46% of total revenue.

Financial Performance in Fiscal Year 2008

The Corporation's net assets increased $71 million to $972 million at August 31, 2008. In 2008, the Corporation generated $76 million in excess revenues over expenses compared to $248 million in 2007. Investment income and change in value of Stanford University managed pools decreased to $32 million, down from $112 million as a result of lower returns on the Corporation investments held through Stanford University.

During the year, the Corporation sold certain assets and liabilities of its clinical laboratory testing outreach business for $30 million, plus the assumption of several property leases valued at approximately $2 million in aggregate. The sales proceeds, net of sales expense and exit costs, were $21 million.

Net patient revenues increased by 8% to $1.6 billion in fiscal year 2008. Despite significant capacity limitations, total patient days increased by 2%. Patient discharges were flat compared to fiscal year 2007. Inpatient revenues, which make up 55% of total revenue, grew by 11% on continuing increases in patient volume and favorable negotiations of payor contracts. Outpatient revenues increased by 4%, accounting for 45% of total.

Financial Performance in Fiscal Year 2007

The Corporation's net assets increased $251 million to $901 million at August 31, 2007. In 2007, the Corporation generated $248 million in excess revenues over expenses, compared to $169 million in 2006. Investment income increased to $112 million, up from $54 million as a result of continued excellent returns on the Corporation investments held through Stanford University.

Prior to fiscal year 2007, Stanford University had assigned to the Corporation the right to all revenue related to pediatric and obstetric practices of the School of Medicine faculty. Effective September 1, 2007, LPCH assumed the right to these revenues. In fiscal year 2006 the pediatric and obstetric practices had revenue of $61 million. Payment for physicians' services related to these services was $48 million.

Fiscal year 2007 revenues and expenses are compared to fiscal year 2006 excluding the pediatric and obstetric practice services. Income from operations before investment income was $138 million for the fiscal year ended August 31, 2007, up 20% from $115 million in fiscal year 2006. Net patient revenues grew 5% to $1.5 billion in fiscal year 2007, compared to $1.4 billion in fiscal year 2006. Both patient acuity and volumes slightly increased for the year. Total patient days increased 2%, and patient discharges were up 3% in fiscal year 2007 over fiscal year 2006. Inpatient revenues, which make up 53% of the total, grew by 7% despite existing capacity limitations. Outpatient revenues increased by 12%, accounting for 47% of the total.

Pension Funding Requirements

The majority of the Corporation's eligible employees are covered by the Corporation's 403(b) Retirement Plan, which is a defined contribution plan with contributions based on a percentage of an eligible employee's annual compensation.

In addition, certain employees are covered by a noncontributory defined benefit plan, the Staff Pension Plan (the "SPP") that was closed to new participants in 1997. Benefits are based on years of service and an employee's compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The financial performance of pension fund investments of the SPP can have a significant impact on the amount of pension expense and the recorded pension liability, as well as the amount and timing of pension contributions. Other factors can also have a significant impact on pension expense and contributions, such as interest rate levels and salary inflation. Taken together, these factors can have a material impact on both the results of operations and liquidity. As of January 1, 2010, the Corporation's funded status with respect to the SPP was 81.6%. The Corporation has budgeted a contribution of approximately $14 million to the SPP during the fiscal year ending August 31, 2010 and expects to fund between $60 million and $84 million over the next six years to bring the closed plan to a funding status of 100%, based upon current estimates.

For additional information on the Corporation's retirement plans see Note 10 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Capitalization

The table below, prepared by management of the Corporation, sets forth the consolidated capitalization of the Corporation and Subsidiaries as of August 31, 2009, and as adjusted to reflect the issuance of the Bonds, the refunding of the Prior Bonds and a reduction in principal amount of 2008 A-1 Bonds resulting from the remarketing of the 2008 A-1 Bonds at a premium and application of that premium to reduce the principal amount of 2008 A-1 Bonds outstanding subsequent to the remarketing, as if all such transactions had occurred as of August 31, 2009. The information included in the table below has been derived from information that is contained in the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

TABLE 9

Consolidated Capitalization
(Dollars in Thousands)

	As of August 31, 2009	As Adjusted
Existing Net Long-Term Debt[1]	$ 823,761	$ 823,761
Prior Bonds	–	(309,630)[2]
The Bonds	–	296,055
Subtotal	$ 823,761	$ 810,186
Unrestricted Net Assets	730,563	730,563
Total Consolidated Capitalization	$1,554,324	$1,540,749
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	53.0%	52.6%

(1) Existing net long-term debt; includes debt subject to short-term remarketing arrangements classified as current liabilities in the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

(2) Includes $140 resulting from reduction in principal amount of 2008 A-1 Bonds from the remarketing of the 2008 A-1 Bonds at a premium.

Source: Corporation Records.

Cash and Investments

As of August 31, 2009, the Corporation's funds were invested across three portfolios that included: a liquidity portfolio, consisting of cash and cash equivalents; a short-term portfolio, invested in a short-term treasury mutual fund, and a long-term portfolio that invests in shares of the pools managed by Stanford University. The shares in Stanford University's pooled funds are invested in cash and cash equivalents, government and corporate debt securities, equity securities, mutual funds, real estate, investments in partnerships and other investments. The Corporation's investments in the pooled funds managed by Stanford University are carried on its financial statements based on a value per share in such funds. Gains or losses are realized only upon the sale of such shares. Recent significant declines, and in some cases illiquidity, in the markets for nearly all classes of investments have significantly reduced the value of the Corporation's investments in the pooled funds with Stanford University. For additional information regarding the composition of the Corporation's investments at August 31, 2009, accounting for the Corporation's interest in pooled funds managed by Stanford University and earnings therefrom, see Note 6 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Liquidity

The following table, prepared by management of the Corporation, sets forth the consolidated cash position and liquidity of the Corporation and its subsidiaries as of August 31, 2009 and as of the six months ended February 28, 2010.

TABLE 10

Consolidated Liquidity
(Dollars in Thousands)

	As of August 31, 2009	As of February 28, 2010
Cash and Cash Equivalents	$331,502	$303,166
Investments	76,584	70,689
Investments in Stanford University Managed Pools[1]	533,518	628,218
Less Temporarily and Permanently Restricted Assets	(47,477)	(42,531)
Total Liquid Assets	$894,127	$959,542
Days Cash on Hand[2]	196.7	202.8

(1) Under an agreement with Stanford Management Company, the Corporation can liquidate on a same-day basis up to 60% of the share value of its investments in Stanford University's managed pools, not to exceed $200 million, to supplement the liquid assets in the Corporation's operating and reserve accounts available to fund the purchase price of variable-rate demand bonds and multi-annual put bonds that are tendered for purchase by beneficial owners or subject to mandatory purchase. See Note 6 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement for a description of the managed pools of Stanford University in which the Corporation has invested.

(2) Total liquid assets times 365 days divided by the total operating expenses net of depreciation and amortization.

Source: Corporation records

Debt Service Coverage

The following table, prepared by management of the Corporation, sets forth the actual maximum debt service coverage for the Corporation on a consolidated basis for fiscal years ended August 31, 2008 and 2009 and debt service coverage for the Corporation for the fiscal year ended August 31, 2009, adjusted to reflect the issuance of the Bonds, the redemption of the Prior Bonds and the remarketing of the 2008 A-1 Bonds as fixed rate bonds, as if all such transactions had occurred at September 1, 2008.

TABLE 11

Consolidated Debt Service Coverage
(in thousands)

	Fiscal years ended August 31,		
	Actual		As Adjusted
	2008	2009	2009
(Deficiency) excess of revenues over expenses	$76,334	$(96,325)	$(96,325)
Depreciation and Amortization	65,812	73,876	73,876
Interest Expense	26,334	37,921	37,921
Change in value of Stanford University Managed Pools	(9,720)	146,481	146,481
Interest Rate Swap Mark-to-Market Adjustments	42,600	48,338	48,338
Loss on Extinguishment of Debt	17,855	–	–
Funds Available for Debt Service	$219,215	$210,291	$210,291
Maximum Annual Debt Service	$44,396	$44,429	$47,519
Coverage of Maximum Annual Debt Service	4.94	4.73	4.43

Source: Corporation Records.

Interest Rate Swap Arrangements

The Corporation periodically enters into interest rate swap contracts ("Swaps") to increase or decrease its variable rate debt exposure and to achieve a targeted mix of fixed and floating rate indebtedness. As of August 31, 2009 and February 28, 2010, the Corporation had Swaps outstanding with a notional amount of $749 million of floating-to-fixed rate Swaps, under which the Corporation pays a fixed rate and receives a variable rate from the swap counterparty. Each of the Swaps may be terminated by the Corporation at its option at any time. Swap counterparties may also terminate Swaps upon the occurrence of certain "termination events" or "events of default." If either the Corporation or a counterparty terminates a Swap with a negative market value, the Corporation may be required to make a termination payment to such counterparty, and such payment could be material in amount. The estimated fair values of the Swaps are determined using available market information and valuation methodologies. The Corporation recognizes changes in the fair value of Swaps in excess (deficiency) of revenue over expenses. As of August 31, 2009 and February 28, 2010, the Corporation's mark-to-market liability on the Swaps totaled approximately $87 million and $76 million, respectively. In addition, the Corporation is required to post collateral under several of its Swaps to secure its obligations to the Swap counterparty when the counterparty's exposure exceeds certain stated thresholds. The Corporation maintains stand-by

letters of credit in the amount of $50 million to satisfy its collateral obligations and obviate the need to retain liquidity to support the collateral obligations. As of August 31, 2009 and February 28, 2010, the Corporation was not required to post any additional collateral. See Note 9 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement for more information related to the Corporation's Swaps.

Sources of Revenue

Payments are made to the Corporation on behalf of patients by the federal government under the Medicare program administered by the Centers for Medicare and Medicaid of the United States Department of Health and Human Services, the State of California under the Medi-Cal program, certain commercial insurance and managed care programs, as well as by patients on their own behalf.

The following table, prepared by management of the Corporation, summarizes the percentage of gross patient revenues by source of payment to the Corporation for the fiscal years ended August 31, 2007, 2008 and 2009.

TABLE 12

Gross Patient Service Revenues

	Fiscal years ended August 31,		
Source	**2007**	**2008**	**2009**
Medicare	28%	28%	29%
Medi-Cal	5	5	6
Managed Care	53	53	53
Commercial and Other	14	14	12
Total	100%	100%	100%

Source: Corporation Records.

Gross patient service revenue is composed of usual and customary charges for services provided to all patients. Services provided to patients covered by the Medicare, Medi-Cal and a number of managed care programs are typically paid at amounts that are less than usual and customary charges.

See "BONDHOLDERS' RISKS" in the forepart of the Official Statement for a more detailed discussion of the sources of revenue for the Corporation and certain other risks associated with certain sources of revenue.

Managed Care Initiatives

The Corporation maintains contracts with most managed care plans operating in northern California. Management monitors the financial performance under these contracts on a regular basis and pursues renegotiation when appropriate and where feasible with the objective of operating within the financial constraints of its managed care contracts.

The largest volume commercial payers for the Corporation in fiscal year 2009 were Aetna, Blue Cross of California, Blue Shield of California, Cigna, HealthNet, and United/PacifiCare. All commercial

agreements are fee-for-service. Fee-for-service reimbursement employs the traditional methodologies including percent of charges, per diems, case rates, surgical schedules and stop-loss.

ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL CERTIFICATION

The California Department of Public Health licenses the Hospital as a general acute care facility. The Corporation is accredited by The Joint Commission which conducted its last on-site survey in April 2007. The Joint Commission no longer conducts on site surveys on a predictable cycle; therefore, it is not known when the next on-site accreditation survey will occur.

PROFESSIONAL LIABILITY AND OTHER INSURANCE

The Corporation maintains coverage for professional and comprehensive general liability and other coverage's through programs of self-insurance and reinsurance. Primary layers of such liability are insured through SUMIT, an insurer controlled by the Corporation. SUMIT provides hospital professional liability insurance, general liability, medical malpractice liability, employment practices liability and errors and omissions liability to the Corporation and LPCH and Hospital Professional and Medical Malpractice liability insurance to the School of Medicine (including the clinical activities of its faculty and residents).

For the policy year September 1, 2009 to September 1, 2010 SUMIT retains 100% of the risk related to the first $15 million of aggregate losses by the Corporation, LPCH and the School of Medicine. SUMIT has obtained $115 million of excess reinsurance jointly covering the Corporation, LPCH and the School of Medicine. For policy years before September 1, 2005 SUMIT provided occurrence-based coverage of the risk related to the primary loss layer in amounts varying year to year since SUMIT was established in April 2000.

In addition to coverage provided by SUMIT, the Corporation obtains coverage of various risks under policies issued by commercial insurers. These policies typically name LPCH as a named insured as well. As a result, claims brought against one named insured reduce limits available to the other on each claim. The Corporation secures workers compensation coverage jointly with LPCH under commercial policies for amounts in excess of a deductible, of $750,000 per claim for the current fiscal year. The Corporation also obtains property insurance under commercial policies with limits that are shared with LPCH in an aggregate amount of $500 million of coverage, subject to various exclusions, terms and conditions for property loss caused by risks such as flood, business interruption and certain acts of terrorism, among others. The Corporation does not currently purchase insurance coverage for earthquakes. Finally, the Corporation obtains directors and officers' liability coverage under commercial policies in aggregate of $80 million with limits shared with LPCH, subject to a self-insured retention of $250,000 per claim in the current fiscal year.

LITIGATION AND REGULATORY MATTERS

At any given time, the Corporation has lawsuits pending and threatened against it that may or may not be covered in whole or in part by insurance. It is the opinion of management that, other than as disclosed in the Official Statement, there is no litigation now pending or, to the knowledge of management, threatened, that, if successful, would materially adversely affect the ability of the Corporation to make payments with respect to the Bonds as and when due. See "ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL CERTIFICATION" above and "BONDHOLDERS' RISKS" in the forepart of this Official Statement for a description of certain material litigation and governmental proceedings.

The Internal Revenue Service (the "IRS") notified the Authority on February 5, 2009 that it would be conducting a use of proceeds audit on the Authority's $150,000,000 Revenue Bonds (Stanford Hospital and Clinics) 2003 Series B, C and D that were issued on July 1, 2003 (the "2003 Bonds"). On November 12, 2009, the IRS closed its examination and notified the Authority that there was no change to the tax-exempt status of the 2003 Bonds. See "BONDHOLDERS' RISKS—Tax-Exempt Status and Other Tax Matters" in the forepart of this Official Statement

There is not now pending or threatened any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Corporation nor the title of the present directors or officers of the Corporation to their respective offices is being contested. The Corporation is not now a party to any pending litigation, and is not aware of any circumstances that would likely result in such litigation that in any manner questions the right of the Corporation to use the proceeds of the Bonds as described in this Official Statement, including the section entitled "BONDHOLDERS' RISKS," and in accordance with the provisions of the Act and the Indenture.

EMPLOYEES

As of August 31, 2009, the Corporation employed 4,915 full-time, 1,104 regular part time and 405 per diem/PRN (as needed) staff, equivalent to 5,528 full-time equivalent ("FTE") employees excluding leased employees to LPCH.

As of August 31, 2009, the Corporation's nursing departments employed 3,548 full and part time personnel, or 2,844 FTE employees, consisting of 1,578 FTE registered nurses ("RNs"), 12 FTE licensed practical nurses, 1,033 non supervisory staff, and 221 FTE supervisory, clerical and other support staff. Turnover rate for the nursing staff for the past twelve months was approximately 6.7% for RNs.

The Corporation leases 2,744 employees (2,225 FTE) to LPCH and 810 (750 FTE) work in shared services. For additional information concerning shared services, see "FACILITIES, OPERATIONS AND SERVICES—Operational Relationships among the Corporation, Stanford University and LPCH."

As of August 31, 2009, approximately 38% of the Corporation's employees (excluding LPCH leased employees) were covered by collective bargaining arrangements, with two bargaining units represented by Committee for Recognition of Nursing Achievement ("CRONA") and Service Employees International Union ("SEIU"). The current contract with SEIU is in force through August 2011. The contract with CRONA expired in March 2010. However, CRONA membership continues to work without a contract in place. CRONA and the Corporation have submitted proposals to each other through a federal mediator, but have not reached agreement. No direct negotiations are taking place at present. A strike or other action by CRONA members may occur. Management has contingency plans in place if a strike or other action occurs. Management cannot predict the effect that a strike or other action could have on the Corporation's operations and financial results.

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF THE CORPORATION AND SUBSIDIARIES

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Stanford Hospital and Clinics and Subsidiaries

Consolidated Financial Statements
August 31, 2009 and 2008

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August 31, 2009 and 2008

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Report of Independent Auditors

To the Board of Directors
Stanford Hospital and Clinics and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Stanford Hospital and Clinics and subsidiaries ("SHC") at August 31, 2009 and 2008 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of SHC's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

PricewaterhouseCoopers LLP

December 7, 2009

Stanford Hospital and Clinics and Subsidiaries
Consolidated Balance Sheets
August 31, 2009 and 2008
(in thousands of dollars)

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 331,502	$ 268,869
Assets limited as to use, held by trustee	280	504
Patient accounts receivable, net of allowance for doubtful accounts of $71,269 at August 31, 2009 and $74,758 at August 31, 2008	253,299	240,989
Other receivables	11,925	9,912
Inventories	18,725	20,420
Prepaid expenses and other	8,553	8,428
Total current assets	624,284	549,122
Investments	76,584	60,068
Investments in University managed pools	533,518	688,644
Assets limited as to use, held by trustee, net of current portion	48,828	163,246
Property and equipment, net	840,955	706,700
Other assets	60,715	63,398
Total assets	$ 2,184,884	$ 2,231,178
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 129,750	$ 143,723
Accrued salaries and related benefits	91,835	82,819
Due to related parties	33,840	23,091
Third-party payor settlements	19,433	14,704
Current portion of long-term debt	8,713	7,877
Debt subject to short-term remarketing arrangements	266,764	249,414
Self-insurance reserves	18,303	20,008
Total current liabilities	568,638	541,636
Self-insurance reserves, net of current portion	90,811	80,222
Other long-term liabilities	96,244	48,338
Pension liability	65,188	6,051
Long-term debt, net of current portion	556,997	583,236
Total liabilities	1,377,878	1,259,483
Net assets:		
Unrestricted	730,563	909,053
Temporarily restricted	69,951	56,150
Permanently restricted	6,492	6,492
Total net assets	807,006	971,695
Total liabilities and net assets	$ 2,184,884	$ 2,231,178

The accompanying notes are an integral part of these consolidated financial statements.

Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended August 31, 2009 and 2008
(in thousands of dollars)

	2009	2008
Operating revenues:		
Net patient service revenue	$ 1,741,856	$ 1,578,755
Premium revenue	22,960	20,755
Other revenue	57,666	51,225
Net assets released from restrictions used for operations	5,195	4,816
Total operating revenues	1,827,677	1,655,551
Operating expenses:		
Salaries and benefits	787,035	714,856
Professional services	22,842	24,713
Supplies	265,139	235,542
Purchased services	434,257	385,273
Provision for doubtful accounts, net	53,859	51,578
Depreciation and amortization	73,876	65,812
Interest	37,921	26,334
Other	139,385	120,382
Expense recoveries from related parties	(81,317)	(74,184)
Total operating expenses	1,732,997	1,550,306
Income from operations	94,680	105,245
Interest and investment income	3,814	21,824
(Decrease) increase in value of University managed pools	(146,481)	9,720
Interest rate swaps mark to market adjustments	(48,338)	(42,600)
Loss on extinguishment of debt	-	(17,855)
(Deficiency) excess of revenues over expenses	(96,325)	76,334
Other changes in unrestricted net assets:		
Transfer to Stanford University	(8,049)	(7,670)
Transfer from (to) Lucile Salter Packard Children's Hospital	288	(2,808)
Change in net unrealized gains on investments	237	227
Net assets released from restrictions used for:		
Purchase of property and equipment	460	599
Change in pension liability and postretirement	(75,101)	(2,212)
(Decrease) increase in unrestricted net assets before discontinued operations	(178,490)	64,470
Income from discontinued operations	-	890
(Decrease) increase in unrestricted net assets	(178,490)	65,360
Changes in temporarily restricted net assets:		
Transfer from Stanford University	15,167	-
Contributions	5,606	8,508
Investment income	98	586
(Losses) gains on University managed pools	(1,415)	1,161
Net assets released from restrictions for:		
Operations	(5,195)	(4,816)
Purchase of property and equipment	(460)	(599)
Increase in temporarily restricted net assets	13,801	4,840
Changes in permanently restricted net assets:		
Contributions	-	981
Increase in permanently restricted net assets	-	981
(Decrease) increase in net assets	(164,689)	71,181
Net assets, beginning of year	971,695	900,514
Net assets, end of year	$ 807,006	$ 971,695

The accompanying notes are an integral part of these consolidated financial statements.

Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended August 31, 2009 and 2008
(in thousands of dollars)

	2009	2008
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (164,689)	$ 71,181
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Gain from sale of discontinued operations	-	(21,273)
Loss on extinguishment of debt	-	17,855
Depreciation and amortization of bond discounts	74,564	67,031
Provision for doubtful accounts	53,859	54,189
Change in fair value of interest rate swaps	48,338	42,600
Decrease (increase) in value of University managed pools	146,481	(9,720)
Unrealized losses (gains) on investments	2,357	(135)
Realized losses (gains) on investments	185	(125)
Contributions received for long lived assets or endowment	(3,720)	(1,800)
Transfer (from) to Lucile Salter Packard Children's Hospital	(288)	2,808
Changes in operating assets and liabilities:		
Patient accounts receivable	(66,169)	(80,032)
Due to related parties	10,749	839
Other receivables, inventory, other assets, prepaid expenses and other	877	3,207
Accounts payable, accrued liabilities and pension liabilities	58,187	36,058
Accrued salaries and related benefits	9,016	9,945
Third-party payor settlements	4,729	178
Self-insurance reserves	8,884	(8,215)
Other long-term liabilities	597	(6,830)
Cash provided by operating activities	183,957	177,761
Cash flows from investing activities:		
Purchases of investments	(24,857)	(82,524)
Sales of investments	8,652	67,786
Purchases of investments in University managed pools	(4,179)	(10,768)
Sales of investments in University managed pools	9,775	147,747
Decrease in assets limited as to use and other	114,642	170,190
Purchases of property and equipment	(220,791)	(252,421)
Net proceeds from sale of discontinued operations	-	21,273
Cash (used in) provided by investing activities	(116,758)	61,283
Cash flows from financing activities:		
Proceeds from issuance of debt	70,500	514,200
Costs of issuance of debt	-	(2,950)
Payment of long-term debt and capital lease obligation	(79,591)	(523,354)
Contributions received for long lived assets or endowment	4,525	2,651
Cash used in financing activities	(4,566)	(9,453)
Net increase in cash and cash equivalents	62,633	229,591
Cash and cash equivalents, beginning of year	268,869	39,278
Cash and cash equivalents, end of year	$ 331,502	$ 268,869
Supplemental disclosures of cash flow information:		
Interest paid	$ 39,975	$ 39,680
Payables for property and equipment	(12,660)	8,857
(Decrease) increase in value of interest in University managed pools	(146,481)	9,720
Assets acquired under capital leases	597	-

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Stanford Hospital and Clinics ("Stanford Hospital") operates a licensed acute care hospital and a cancer center in Palo Alto, California, along with numerous outpatient physician clinics in the San Francisco Bay Area, in community settings, and in association with regional hospitals. Stanford Hospital is a principal teaching affiliate of the Stanford University School of Medicine ("SoM") and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation services, neurosciences, and orthopedics services designated by management as Stanford Hospital's "Strategic Clinical Services". Stanford Hospital, together with Lucile Salter Packard Children's Hospital at Stanford ("LPCH"), operates the clinical settings through which the SoM educates medical and graduate students, trains residents and clinical fellows, supports faculty and community clinicians and conducts medical and biological sciences research.

The Board of Trustees of Leland Stanford Junior University (the "University") is the sole corporate member of Stanford Hospital and LPCH. As part of their ongoing operations, Stanford Hospital and LPCH engage in certain related party transactions as described further in Note 12.

The consolidated financial statements include Stanford Hospital's interest in Menlo Health Alliance, LLC ("MHA"), SUMIT Insurance Company Ltd ("SUMIT"), and Stanford Emanuel Radiation Oncology Center, LLC ("SEROC") (collectively "SHC").

Stanford Hospital's interest in MHA was 100% for the years ended August 31, 2009 and 2008. MHA is a wholly owned California limited liability company that operates an outpatient clinic.

Stanford Hospital's share of net assets in SUMIT, a captive insurance carrier, was 83.6% and 82.0% for the years ended August 31, 2009 and 2008, respectively. LPCH's share of net assets in SUMIT was 16.4% and 18.0% for the years ended August 31, 2009 and 2008, respectively. This is recorded as a minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

SEROC is a joint venture between Stanford Hospital and Emanuel Medical Center ("EMC"). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. Stanford Hospital's interest in SEROC was 60% during the years ended August 31, 2009 and 2008. The remaining interest of 40% is recorded as minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of SHC include the accounts of Stanford Hospital and its subsidiaries, MHA, SUMIT and SEROC, which are controlled and owned more than 50% by Stanford Hospital. All significant inter-company accounts and transactions are eliminated in the consolidation.

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting. Net assets of SHC and changes therein have been classified and are reported as follows:

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (continued)

- ***Unrestricted net assets*** — Unrestricted net assets represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of SHC and the purposes specified in its articles of incorporation or bylaws and, limits resulting from contractual agreements, if any.

- ***Temporarily restricted net assets*** — Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of SHC pursuant to those stipulations or by the passage of time.

- ***Permanently restricted net assets*** — Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that they be maintained permanently by SHC. Generally, the donors of these assets permit SHC to use all or part of the investment return on these assets.

Expenses are generally reported as decreases in unrestricted net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Temporarily restricted contributions are recorded as restricted revenue when received and when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of operations and changes in net assets. Investment income on temporarily or permanently restricted assets that is restricted by donor or law is recorded within the respective net asset category, and when the restriction expires, the net assets are shown as released from restriction.

Cash and Cash Equivalents
Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash equivalents consist primarily of demand deposits and money market mutual funds.

Assets Limited as to Use, Held by Trustee
Assets limited as to use include various accounts held with a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash and cash equivalents and short-term investments and are recorded at fair value. Amounts required to fund current liabilities of SHC have been classified as current assets in the consolidated balance sheets at August 31, 2009 and 2008.

Inventories
Inventories, which consist primarily of hospital operating supplies and pharmaceuticals, are stated at the lower of cost or market value determined using the first-in, first-out method.

Investments
Investments held directly by SHC consist of cash and cash equivalents, mutual funds and fixed-income securities (government bonds), and are stated at fair value. Fair value is determined in accordance with the provisions of Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (“SFAS 157”), as further described in Note 7. Investment earnings (including realized gains and losses on investments, interest, dividends and impairment loss on investment securities) are included in investment income unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from the appropriate net asset category based on the donor’s restriction. Unrestricted unrealized gains and losses on other than trading securities are separately reported below the excess of revenues over expenses.

2. Summary of Significant Accounting Policies (Continued)

Investments in University managed pools
Investments in University managed pools consist of funds invested in the University's Merged Pools ("MP"), Expendable Funds Pool ("EFP"), and Active Cash Fund ("ACF") (collectively the "Pools"). Under the terms of the SHC's agreement with the University, the University has discretion to invest funds invested in the Pools. SHC may deposit funds in the Pools at its discretion. SHC can withdraw funds from ACF at any time; however, withdrawals from the MP and EFP require advance notice to the University. SHC accounts for its share of the Pools in accordance with Statement of Financial Accounting Standard No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* ("SFAS 136"). The value of its share of the Pools is determined by the University and is based on the fair value of the underlying assets in the Pools.

The University allocates investment earnings to SHC from the University managed pools based on SHC's share of the Pools. Earnings include interest, dividends, distributions, investment gains and losses, and the increases or decreases in the value of SHC's share of the pools. In accordance with SFAS 136, all investment gains and losses and increases and decreases in share value are treated as realized and included in the excess of revenues over expenses.

The increases or decreases in the value of SHC's share of the Pools are recorded as income and gains on University managed pools unless the income is restricted by donor or law. Income on investments of donor restricted funds invested in the University managed pools is added to or deducted from the appropriate net asset category based on the donor's restriction.

Property and Equipment
Property and equipment are stated at cost except for donated assets, which are recorded at fair market value at the date of donation. Depreciation and amortization of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Land improvements	10 to 25 years
Buildings and improvements	7 to 40 years
Equipment	3 to 20 years

Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon sale or disposal of property and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the consolidated statements of operations and changes in net assets.

Equipment includes medical equipment, furniture and fixtures and computer software and hardware.

Equipment under capital leases is recorded at present value at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of the assets recorded under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

2. Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligations
Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently accreted over the useful lives of the related assets. SHC recorded current period accretion expense of $328 and $311 in the consolidated statements of operations and changes in net assets for the years ended August 31, 2009 and 2008, respectively. ARO liability of $6,458 and $6,130 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2009 and 2008, respectively.

Other Assets
Other assets include deferred financing costs, long-term portion of contributions receivable, investments in Waverley Surgery Center, L.P. ("Waverley"), investments in Stanford PET-CT ("PET-CT") and other long-term assets.

Deferred financing costs represent costs incurred in conjunction with the issuance of SHC's long-term debt. These costs are amortized on a straight-line basis, which approximates the effective interest method, over the life of the debt.

Waverley is a California limited partnership which operates an ambulatory surgical center in Palo Alto, providing outpatient surgical and related health care services. PET-CT is a California limited liability company which provides radiological services to patients of the community, including patients served by SHC and physicians affiliated with the SoM. SHC and the University each appoint one-half of the members of the governing board of PET-CT and are its only members.

SHC's interest in Waverley was 33.70% for the years ended August 31, 2009 and 2008. SHC's interest in PET-CT was 50% for the years ended August 31, 2009 and 2008. As SHC has 50% or less ownership and does not have control, these investments are recorded using the equity method.

Contributions Receivable
Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as either temporary or permanently restricted net assets and are included as restricted contributions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the promises are received, and recorded in their respective net asset category. Prior to fiscal year 2009, the discount rates were determined using the US Treasury Note rate. In accordance with SFAS 157, the discount rates used during fiscal year 2009 were determined using the risk free rate adjusted for the risk of donor default. Amortization of the discount is included in contributions in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

Contributions receivable as of August 31, 2009 and 2008 were $28,636 and $29,877, respectively. Current portion of contributions receivable of $1,247 and $1,933 is included in other receivables in the consolidated balance sheets as of August 31, 2009 and 2008, respectively. Long term portion of contributions receivable of $27,389 and $27,944 is included in other assets in the consolidated balance sheets as of August 31, 2009 and 2008, respectively.

2. Summary of Significant Accounting Policies (Continued)

Premiums and Discounts on Long-Term Debt
Premiums and discounts arising from the original issuance of long-term debt are amortized on a straight-line basis, which approximates the effective interest method, over the life of the debt. The unamortized portion of these premiums and discounts are included in long-term debt on the consolidated balance sheets.

Interest Rate Swap Agreements
SHC has entered into several interest rate swap agreements, also known as risk management or derivative instruments, to reduce the effect of interest rate fluctuation on its variable rate bonds. SHC designates at inception whether the swap agreement is considered hedging or non-hedging for accounting purposes in accordance with Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). All swaps are recognized on the consolidated balance sheets at their fair value in accordance with SFAS 157. The net cash payments or receipts under the interest rate swap agreements have been recorded as an increase (decrease) to interest expense.

Changes in the fair value of the interest rate swaps that are effective and qualify as a cash flow hedge are recorded as change in unrestricted net assets. Changes in the fair value of interest rate swaps not designated as hedges are included in excess of revenues over expenses.

Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is included in excess of revenues over expenses.

Excess of Revenues over Expenses
The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, include transfers of assets to and from affiliates for other than goods and services, change in unrealized gains and losses on marketable investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in pension liability, changes in fair value of interest rate swaps considered effective, income or loss from discontinued operations and cumulative effect of changes in accounting principles.

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Contracts, laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

2. Summary of Significant Accounting Policies (Continued)

Premium Revenue
SHC has capitated agreements with various health maintenance organizations ("HMOs") to provide medical services to enrollees. Under these agreements, monthly payments are received based on the number of health plan enrollees. These receipts are recorded as premium revenue in the consolidated statements of operations and changes in net assets. Costs are accrued when services are rendered under these contracts, including cost estimates of incurred but not reported ("IBNR") claims. The IBNR accrual (which is included in accounts payable and accrued liabilities in the consolidated balance sheets) includes an estimate of the costs of services for which SHC is responsible, including referrals to outside healthcare providers.

Charity Care
SHC provides either full or partial charity care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. SHC also provides services to other indigent patients under Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

Income Taxes
SHC and SUMIT are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The estimated tax liability pertaining to unrelated business taxable income associated with Waverley has been recorded as $653 and $513 at August 31, 2009 and 2008, respectively, and is included in accounts payable and accrued liabilities in the consolidated balance sheets.

Self-Insurance Plans
SHC self-insures for professional liability risks, postretirement medical benefits, workers' compensation, health and dental. These liabilities are reflected as self-insurance reserves in the consolidated balance sheets.

- ***Professional Liability*** — SHC is self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC also maintains professional liability reserves for claims not covered by SUMIT which totals $6,501. For the policy period September 1, 2008 to September 1, 2009, SUMIT retains 100% of the risk related to the first $15,000 per occurrence. The next $115,000 is transferred to various reinsurance companies. For the period from September 1, 2005 to September 1, 2008, SHC maintained the same coverage limits as fiscal year 2009.

- ***Postretirement Medical Benefits*** – Liabilities for post-retirement medical claims for current and retired employees are actuarially determined.

- ***Workers' Compensation*** — SHC purchases insurance for workers' compensation claims with a $750 deductible per occurrence. Workers' compensation insurance provides statutory limits for the State of California. An actuarial estimate of retained losses (or losses retained within the deductible) has been used to record a liability.

- ***Health and Dental*** — Liabilities for health and dental claims for current employees are based on estimated costs.

2. Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments
Due to the short-term nature of cash and cash equivalents, accounts payable and accrued liabilities, and accrued salaries and related benefits, their carrying value approximates their fair value. The fair value of the amounts payable under third-party reimbursement contracts is not readily determinable. The fair value of long-term debt is estimated based on quoted market prices for the bonds or similar financial instruments.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due to third party payors, retirement plan obligations, and self insurance reserves. Actual results could differ from those estimates.

Reclassification
Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 presentation. Such reclassifications had no effect on excess of revenues over expenses as previously reported.

Discontinued Operations
In August 2008, SHC sold certain assets and liabilities of its clinical laboratory testing outreach business to an unrelated party for $30,000 plus the assumption of certain property leases valued at approximately $2,000 less sales expense and other exit costs of $8,727.

This transaction was accounted for in accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets* ("SFAS 144"). As a result, the gains or losses from the operations of the clinical testing laboratory outreach business were reported as discontinued operations for the year ended August 31, 2008.

The net operating loss included in the results of discontinued operations for the year ended August 31, 2008 was $20,383.

The following table sets forth the components of discontinued operations for the year ended August 31, 2008:

	2008
Total operating revenue	$ 29,520
Total operating expenses	49,903
Loss from operations	(20,383)
Net proceeds from sale	21,273
Income from discontinued operations	$ 890

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard 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 sponsors of defined benefit pension plans and other postretirement benefit plans to recognize the funded status of the plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the fiscal year-end balance sheet date and provide additional disclosures. In fiscal year 2007, SHC adopted the recognition and disclosure provisions of SFAS 158. The provision that requires measurement of plan assets and benefit obligations as of the end of the fiscal year was adopted for the fiscal year ending August 31, 2009. The effect of this adoption for fiscal year 2009 is discussed in Note 10.

In fiscal year 2009, SHC also adopted the following pronouncements.

In September 2006, the FASB issued SFAS 157. SFAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements about fair value measurements. The effect of this adoption is discussed in Note 7.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). California adopted a version of UPMIFA which became effective January 1, 2009. FSP 117-1 also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The effect of this adoption is discussed in Note 11.

In December 2008, the FASB issued FASB Staff Position No. 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* ("FSP 48-3"), clarifying the effective date of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). Under FSP 48-3, the effective date for SHC is for the fiscal year ended August 31, 2009. The standard requires SHC to accrue for liabilities relating to uncertain tax positions only when such liabilities are probable and reasonably estimable. The effect of the adoption did not have a material effect on SHC's financial statements.

3. Net Patient Service Revenue

SHC has agreements with third-party payers that provide for payments at amounts different from SHC's established rates. A summary of payment arrangements with major third-party payor's follows:

- ***Medicare*** — Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. SHC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review.

  Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. SHC is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially completed. SHC's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2002.

  Professional services are reimbursed based on a fee schedule.

- ***Medi-Cal*** — Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a contract at a prospectively determined negotiated per diem rate. Outpatient services are reimbursed based upon prospectively determined fee schedules. Professional services are reimbursed based on a fee schedule.

- ***Other*** – SHC has entered into agreements with numerous non-government third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

  - Commercial insurance companies, including workers' compensation plans, which reimburse SHC at negotiated charges.

  - Managed care contracts such as those with HMOs and PPOs, which reimburse SHC at contracted or per diem rates, which are usually less than full charges.

  - Counties in the State of California, which reimburse SHC for certain indigent patients covered under county contracts.

3. Net Patient Service Revenue (Continued)

Amounts due from Blue Cross represent 17% of net patient accounts receivable at August 31, 2009 and 2008. Amounts due from Medicare represent 16% and 14% of net patient accounts receivable at August 31, 2009 and 2008, respectively. SHC does not believe there are significant credit risks associated with this health care payor or this government agency.

SHC recognized net patient service revenue of $5,759 and $8,561 as a result of prior years favorable developments related to reimbursement for the years ended August 31, 2009 and 2008, respectively. SHC also recognized revenues of $12,734 and $6,581 as a result of prior years appeals settled during the years ended August 31, 2009 and 2008, respectively.

Net patient service revenue, including premium revenue, by major payor for the years ended August 31 is as follows:

	2009	2008
Medicare	$ 356,042	$ 313,281
Medi-Cal	30,097	27,614
Managed Care - Capitation	22,960	20,755
Managed Care - Discounted Fee for Services	1,141,866	1,020,096
Self pay and other	160,844	167,651
Related party	53,007	50,113
Total	$ 1,764,816	$ 1,599,510

4. Charity Care and Uncompensated Costs

SHC engages in numerous community benefit programs and services. These services include health research, education and training and other benefits for the larger community that are excluded from the information below.

Uncompensated charity care is provided to vulnerable populations. Additionally, Medi-Cal and Medicare program reimbursements do not cover the estimated costs of services provided.

Information related to SHC's charity care for the years ended August 31 is as follows:

	2009	2008
Charity care at established rates	$ 60,303	$ 50,536
Estimated cost of charity care	$ 16,469	$ 14,525

Estimated cost of services in excess of reimbursement for the years ended August 31 is as follows:

	2009	2008
Charity care	$ 16,469	$ 14,525
Medi-Cal	76,112	66,043
Medicare	65,753	55,395
Total	$ 158,334	$ 135,963

5. Assets Limited As to Use, Held by Trustee

The composition of assets limited as to use at August 31 is as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 49,108	$ 49,108	$ 163,750	$ 163,750
Less: Current portion of assets limited as to use, held by trustee		(280)		(504)
Assets limited as to use, held by trustee, net of current portion		$ 48,828		$ 163,246

SHC is required to maintain a debt service reserve fund with the trustee in connection with the 2003 bonds (see Note 9). The fair value of the deposits with the trustee was $14,269 at August 31, 2009 and 2008.

6. Investments and Investments in University Managed Pools

The composition of investments held directly by SHC at August 31 is as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Cash and cash equivalents	$ 33,955	$ 33,955	$ 13,447	$ 13,447
Mutual funds	41,168	42,629	45,537	46,621
Total	$ 75,123	$ 76,584	$ 58,984	$ 60,068

The composition of investments in University managed pools at August 31 is as follows:

	Fair Value	
	2009	2008
Investments in University Managed Pools:		
Merged Pool	$ 525,986	$ 672,904
Active Cash Fund	3,632	12,030
Expendable Funds Pool	3,900	3,710
Total	$ 533,518	$ 688,644

The Merged Pool ("MP") is the primary investment pool in which funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value. The MP's investments at August 31, 2009 and 2008 consist of approximately 1% and 1% cash and cash equivalents, 1% and 2% fixed income securities, 2% and 2% in real estate, 25% and 31% public equity securities and mutual funds, and 71% and 64% in limited partnerships, respectively.

7. Fair Value Measurements

SFAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk.

In addition to defining fair value, SFAS 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds and interest rate swap instruments.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. SHC has no investments that are categorized as level 3.

The following table summarizes SHC's assets and liabilities measured at fair value on a recurring basis as of August 31, 2009, based on the inputs used to value them:

	Level 1	Level 2	Total
Assets			
Cash and cash equivalents	$ 331,502	$ -	$ 331,502
Assets limited as to use, held by trustee	49,108	-	49,108
Investments	33,955	42,629	76,584
Investments in University managed pools	-	533,518	533,518
Total assets	$ 414,565	$ 576,147	$ 990,712
Liabilities			
Interest rate swap instruments	$ -	$ 87,311	$ 87,311

8. Property and Equipment

Property and equipment consist of the following as of August 31:

	2009	2008
Land and improvements	$ 27,364	$ 25,761
Buildings and improvements	773,532	559,621
Equipment	479,815	411,841
	1,280,711	997,223
Less: Accumulated depreciation	(647,514)	(580,796)
Construction-in-progress	207,758	290,273
Property and equipment, net	$ 840,955	$ 706,700

Depreciation and amortization expense totaled $73,876 and $65,812 for the years ending August 31, 2009 and 2008, respectively, and is included in the consolidated statements of operations and changes in net assets.

As of August 31, 2009, medical equipment acquired under capital leases totaled $6,472 and is included in property and equipment in the consolidated balance sheet. Amortization expense under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets. Accumulated amortization was $2,605 and $1,371 as of August 31, 2009 and 2008.

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. Capitalized interest expense net of capitalized investment income was $2,049 and $4,465 for the years ended August 31, 2009 and 2008, respectively.

9. Long-Term Debt

SHC's outstanding debt at August 31 is summarized below:

	2009	2008
1998 Series B Fixed Rate Bonds, payable in varying annual amounts through 2031, with an interest rate of 5%	$ 163,435	$ 167,195
2003 Series A Fixed Rate Bonds, payable in varying annual amounts from November 2007 through 2023, with interest rates ranging from 2% to 5%	88,015	91,990
2003 Series B, C and D Variable Rate Demand Bonds, maturing in November, 2036, with an interest rate of 0.67% at August 31, 2009 and 1.77% at August 31, 2008	150,000	150,000
2008 Series A Variable Rate Demand Bonds, maturing in November 2040, with an interest rate of 1.38% at August 31, 2009 and 2.24% at August 31, 2008	260,300	260,300
2008 Series B Variable Rate Demand Bonds, maturing in November 2045, with an interest rate of 0.16% at August, 2009 and 1.53% at August 31, 2008	168,200	168,200
Promissory note, maturing in July 2014, with an interest rate of 7.03% at August 31, 2009 and 2008	857	999
Total principal amounts	830,807	838,684
Unamortized original issue premium/(discount), net	1,667	1,843
Current portion of long-term debt	(8,713)	(7,877)
Debt subject to short-term remarketing arrangements	(266,764)	(249,414)
Long-term portion, net of current portion	$ 556,997	$ 583,236

In June 2008, The California Health Facilities Financing Authority ("CHFFA") on behalf of SHC, refunded the 2006 Variable Rate Demand Bonds ("VRDB") in the aggregate principal amount of $428,500 and issued 2008 VRDB's in the aggregate principal amount of $428,500. The 2008 bonds were comprised of $260,300 of 2008 Series A VRDB's that were issued as Series A-1, Series A-2, and Series A-3; and $168,200 of 2008 Series B VRDB's that were issued as Series B-1 and Series B-2. As a result of the bond refinancing, the 2006 bond issuance costs of $17,855 were included in loss on extinguishment of debt for the year ended August 31, 2008. In June 2009, SHC remarketed the $70,500 2008 Series A-1 bonds and achieved a lower interest rate effective for one year.

The $70,500 2008 Series A-1 and $85,700 Series A-3 VRDB's are subject to mandatory repurchase tenders on June 15, 2010 and June 15, 2011, respectively. The $104,100 2008 Series A-2 bonds are 7 day VRDB's and are secured by a direct pay letter of credit which expires June 2011. The 2008 Series B bonds are 7 day VRDB's with self-liquidity. In 2008, SHC entered into an agreement with Stanford University to access on a same-day basis up to $200,000 of SHC's investments which are managed for SHC by Stanford University to enhance its liquidity.

9. Long-Term Debt (Continued)

In June 2008, SHC converted its $150,000 2003 Series B, C and D VRDB's from 35 day auction rate notes to 7 day VRDB's. In order to provide liquidity for the 2003 VRDB's, SHC entered into three Standby Bond Purchase Agreements related to each series in the aggregate amount of $150,000, each of which expires in June 2011.

The 2008 bonds, together with the 2003 bonds and 1998 bonds are collectively referred to as the "Revenue Bonds". The Revenue Bonds are a limited obligation of CHFFA and are payable solely from payments made by SHC. Payments of principal and interest on the Revenue Bonds are collateralized by a pledge against the revenues of SHC. The 1998 and 2003 Series B, C and D bonds are insured by municipal bond guaranty policies. The Master Trust Indenture of SHC includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem the Revenue Bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the Master Trust Indenture is in the aggregate principal amounts of $829,950 and $837,685 as of August 31, 2009 and 2008, respectively.

Scheduled principal payments on long-term debt including unsecured promissory notes are summarized below, assuming remarketing of the 2003 and 2008 VRDB's:

2010	$	8,713
2011		9,114
2012		11,261
2013		11,010
2014		12,489
Thereafter		778,220
	$	830,807

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term obligations, including debt subject to short term remarketing arrangements, includes payments scheduled to be made in 2010, the VRDB's supported by SHC's liquidity and that portion of credit facilities that would be due in the event the bondholders tendered the bonds to those facilities. Generally accepted accounting principles require that bonds backed by credit facilities expiring within one year of the balance sheet date and bonds supported by SHC's liquidity be classified as current liabilities.

The estimated fair value of the Revenue Bonds as of August 31, 2009 and 2008 was $823,864 and $828,443, respectively.

In 1998, SHC advance refunded its 1993 and 1995 bonds in the amount of $111,014 by issuing the 1998 bonds. As of August 31, 2009 and 2008, $27,295 and $32,415, respectively, of advance refunded bonds, which are considered extinguished, remain outstanding.

Interest Rate Swap Agreements
SHC has entered into various interest rate swap agreements (swap agreements) with varying maturities through November 2045. The purpose of the swap agreements, also known as risk management or derivative instruments, is to reduce the effect of interest rate fluctuation on its variable rate bonds.

The swap agreements require SHC to pay fixed interest rates varying from 3.365% to 3.942% on a notional amount and to receive a variable interest payment computed based on a percentage of the 30-day London Interbank Offered Rate ("LIBOR") based on the same notional amount.

9. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)
Certain swap agreements require mutual posting of collateral between SHC and the counterparties should the fair market value of the swap agreements exceed a predetermined threshold dollar amount.

The notional amounts under the swap agreements were $749,400 at August 31, 2009 and 2008. The swap agreements can be canceled at anytime by SHC by settling the contracts at the current fair market value.

The swap agreements are recognized on the consolidated balance sheets at their fair value. The fair market value of the swap agreements as of August 31, 2009 and 2008 was a liability of $87,311 and $38,973, respectively, included in other long-term liabilities.

In June 2008, the underlying bonds that were being hedged were refinanced and as a result, the swap agreements are no longer treated as a hedge for accounting purposes. As a result, the change in the fair market value of the swap agreements of $48,338 and $42,600 for the years ended August 31, 2009 and 2008, respectively, has been included in the (deficiency) excess of revenues over expenses in the consolidated statements of operations and changes in net assets.

Interest expense includes the net of cash receipts and cash payments under the interest swap agreements. Interest expense includes net cash payments of $15,550 and $3,198 for the years ended August 31, 2009 and 2008, respectively.

10. Retirement Plans

SHC provides retirement benefits through defined benefit and defined contribution retirement plans covering substantially all benefit eligible employees.

For fiscal year 2009, SHC adopted the provision of SFAS 158 which requires measurement of the plan assets and benefit obligations of SHC's defined benefit and postretirement medical benefit plans as of SHC's fiscal year end, therefore the measurement date for 2009 was changed from June 30 to August 31.

Defined Contribution Retirement Plan
Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees excluding LPCH leased employees (see Note 12) totaling $38,593 and $34,864 for the years ended August 31, 2009 and 2008, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

Defined Benefit Pension Plan
Certain employees of the Hospitals are covered by a noncontributory defined benefit pension plan (the "Staff Pension Plan"). Benefits are based on years of service and the employee's compensation. Contributions to the plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

10. Retirement Plans (Continued)

Defined Benefit Pension Plan (continued)
As of August 31, 2004, SHC assumed the pension liability of the employees leased to LPCH. SHC received $2,527 in cash during the year ended August 31, 2005, which represented the pension liability as of August 31, 2004. In addition, SHC received $433 and $454 in cash for the years ending August 31, 2009 and 2008, respectively, which represented the current year pension expense related to LPCH leased employees, and another $72 for the year ending August 31, 2009 which represented the gap period from July 1, 2008 to August 31, 2008, as a result of the change in measurement date.

Postretirement Medical Benefit Plan
SHC currently provides health insurance coverage for SHC employees upon retirement as early as age 55, with years of service as defined by specific criteria. The health insurance coverage for retirees who are under age 65 is the same as that provided to active employees. A Medicare supplement option is provided for retirees over age 65.

SHC implemented a postretirement medical benefit plan change effective January 2009. This change added a Retiree Health Reimbursement Account for certain participants. As a result of this plan amendment, the benefit obligation increased by $3,632 for the year ended August 31, 2009.

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2009 and 2008, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH leased employees. The total postretirement medical benefit liability was $78,828 and $62,818 as of August 31, 2009 and 2008, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $63,227 and $50,477 as of August 31, 2009 and 2008, respectively, which represents the liability for SHC employees excluding LPCH leased employees.

10. Retirement Plans (Continued)

The change in pension and other post-retirement plan assets and the related change in benefit obligations, using a measurement date of August 31, as of and for the years ended August 31 are as follows:

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2009	2008	2009	2008
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 140,777	$ 152,074	$ -	$ -
Adjustment due to change in measurement date pursuant to SFAS 158				
Changes due to gap period benefit payments	(1,134)	-	(575)	-
Actual return on plan assets	(23,171)	(11,576)	-	-
Employer contributions	3,075	6,898	4,490	3,657
Participants contributions	-	-	665	682
Benefits paid	(7,344)	(6,619)	(4,580)	(4,339)
Fair value of plan assets at end of year	$ 112,203	$ 140,777	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 146,828	$ 157,568	$ 63,543	$ 66,339
Adjustments due to change in measurement date pursuant to SFAS 158				
Service and interest costs during gap period	2,008	-	962	-
Changes due to gap period benefit payments	(1,134)	-	(575)	-
Service cost	1,497	1,720	1,427	1,583
Interest cost	10,548	9,952	4,343	4,071
Participants contributions	-	-	665	682
Benefits paid	(7,344)	(6,619)	(4,580)	(4,339)
Plan amendment	-	-	3,632	-
Actuarial loss (gain)	24,988	(15,793)	9,411	(4,793)
Benefit obligation at end of year	$ 177,391	$ 146,828	$ 78,828	$ 63,543

10. Retirement Plans (Continued)

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2009	2008	2009	2008
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (65,188)	$ (6,051)	$ (78,828)	$ (63,543)
Contributions made from July 1 to August 31	-	-	-	725
Net benefit liability recognized	$ (65,188)	$ (6,051)	$ (78,828)	$ (62,818)
Amounts recognized in consolidated balance sheets (after SFAS 158) consist of:				
Current liabilities	$ -	$ -	$ (4,739)	$ (4,262)
Noncurrent liabilities	(65,188)	(6,051)	(74,089)	(58,556)
Net benefit liability recognized	$ (65,188)	$ (6,051)	$ (78,828)	$ (62,818)
Amounts recognized in accumulated other comprehensive income:				
Prior service cost (credit)	$ -	$ -	$ 2,020	$ (2,585)
Net loss (gain)	65,583	3,524	1,495	(8,972)
Accumulated other comprehensive income	$ 65,583	$ 3,524	$ 3,515	$ (11,557)

The estimated net loss for the staff pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $1,282. The estimated net loss and prior service cost for the postretirement medical plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $105 and $574, respectively.

Total benefit obligation at the end of the year for Postretirement Medical Benefits excluding Medicare Part D subsidiary increased to $86,497.

The accumulated benefit obligation for the defined benefit pension plan was $173,319 and $142,876 as of August 31, 2009 and June 30, 2008, respectively.

10. Retirement Plans (Continued)

Net benefit expense related to the plans for the years ended August 31 includes the following components:

	Staff Pension Plan Obligations		
	2009	Gap Period	2008
Service cost	$ 1,497	$ 250	$ 1,720
Interest cost	10,548	1,758	9,952
Expected return on plan assets	(11,914)	(1,986)	(11,057)
Total net periodic benefit cost	$ 131	$ 22	$ 615

	Postretirement Medical Benefits					
	Net of Medicare Part D Subsidy			Excluding Medicare Part D Subsidy		
	2009	Gap Period	2008	2009	Gap Period	2008
Service cost	$ 1,427	$ 238	$ 1,583	$ 1,541	$ 257	$ 1,673
Interest cost	4,343	724	4,071	4,869	812	4,747
Amortization of prior service cost	(834)	(139)	(834)	(834)	(139)	(834)
Recognized net actuarial (gain) loss	(905)	(151)	(448)	(593)	(99)	184
Total net periodic benefit cost	$ 4,031	$ 672	$ 4,372	$ 4,983	$ 831	$ 5,770

Changes recognized in other comprehensive income for the years ended August 31 include the following components:

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2009	2008	2009	2008
Prior service cost arising during period	$ -	$ -	$ 3,632	$ -
Net loss (gain) arising during period	62,059	6,839	9,411	(4,793)
Amortizations				
Prior service credit	-	-	973	834
Gain	-	-	1,056	448
Total recognized in other comprehensive income	$ 62,059	$ 6,839	$ 15,072	$ (3,511)
Total recognized in net periodic benefit cost and other comprehensive income	$ 62,190	$ 7,454	$ 19,103	$ 861

10. Retirement Plans (Continued)

Actuarial Assumptions

The weighted-average assumptions used to determine benefit obligations are as follows for the years ended August 31:

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2009	2008	2009	2008
Weighted-average assumptions				
Discount rate	6.10%	7.38%	5.83%	7.12%
Rate of compensation increase	5.50%	5.50%	N/A	N/A

The discount rate, expected rate of return on plan assets, and the projected covered payroll growth rates used in determining the above net benefit expense are as follows for the years ended August 31:

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2009	2008	2009	2008
Weighted-average assumptions				
Discount rate	7.38%	6.47%	7.12%	6.35%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	5.50%	5.50%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. The historical return of the plan assets for the past ten years ending June 30, 2009 averaged 2.6%. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The evaluation of the historical returns and the future expected returns resulted in the use of 8.0% as the assumption for the expected return on plan assets.

To determine the accumulated post-retirement benefit obligation as of August 31, 2009, a 9.5% annual rate of increase in the pre-65 per capita costs and 10.0% annual rate of increase in the post-65 prescription drug per capita costs, and 7.0% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2009, declining gradually to 5.0% by 2014 for pre-65 per capita costs, 2014 for post-65 prescription drug per capita cost, and 2011 for post-65 per capita costs of all other medical benefits, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post-retirement benefit obligation by $2,764 and the aggregate service and interest cost by $251. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by $2,509 and the aggregate service and interest cost by $227.

10. Retirement Plans (Continued)

Plan Assets
SHC's staff pension plan weighted-average asset allocations as of the measurement date August 31, 2009 and June 30, 2008, respectively by asset category are as follows:

Asset Category	August 31, 2009	June 30, 2008
Equity securities	42%	66%
Debt securities	42%	21%
Real estate	7%	12%
Other	9%	1%
Total	100%	100%

Plan Investments
The investment objective of the staff pension plan funds is to maximize the total rate of return (income and appreciation) within the limits of prudent risk taking and Section 404 of the Employee Retirement Income Security Act. The funds are diversified across asset classes to achieve an optimal balance between risk and return and between income and capital appreciation. Many of the pension liabilities are long term. The investment horizon is also long-term; however, the investment plan also ensures adequate near-term liquidity to meet benefit payments.

The allowable asset mix range and target asset allocations are:

Asset Category	Acceptable Range	Target Allocation
Equity securities	28% to 60%	46%
Debt securities	36% to 60%	44%
Real Estate	0% to 12%	10%
Cash equivalents	0% to 4%	< 1%

Appropriate investments include common, preferred and convertible equities of domestic and foreign companies, mutual and commingled trust funds, top tier commercial paper, certificates of deposit, and fixed income securities whose assets are rated investment grade or better. Financial futures and options on futures traded on exchanges are also permitted for hedging purposes. Prohibited investments include commodities, unregistered securities and short sales. Derivative products may not be used to leverage a portfolio or to speculate. All assets must have readily ascertainable market value and be easily marketable.

Portfolios are expected to be well diversified with respect to industry and economic sectors. Equity investments in any one company shall be limited to the greater of 5% of the market value of the portfolio at time of purchase or twice the applicable benchmark weighting of the security. The investment manager shall not hold more than 15% of any company's outstanding equity.

Fixed income investments may consist of U.S. government, U.S. government guaranteed, and U.S. government agency securities. Corporate bond holdings must have an investment grade credit rating at the time of purchase and during the holding period. No single issuer of fixed income or cash equivalent securities (with the exception of the U.S. Government and its Agencies) will account for more than 10% of the market value of the fixed income securities in a manager's portfolio.

10. Retirement Plans (Continued)

Plan Investments (continued)
Investments in any one real estate investment trust company shall be limited to the greater of 5% of the market value of the portfolio at time of purchase or twice the applicable benchmark weighting of that security. The investment manager shall not hold more than 15% of any company's outstanding shares.

Expected Contributions
SHC expects to contribute $14,300 to its Staff Pension Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2010. SHC expects to contribute $4,739 to its Postretirement Medical Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2010.

Expected Benefit Payments
The following benefit payments, which reflect expected future service, are expected to be paid for the fiscal years ending August 31:

		Postretirement Medical Benefits	
	Pension Benefits	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2010	$ 8,592	$ 4,739	$ 5,202
2011	9,294	5,232	5,763
2012	9,929	5,682	6,284
2013	10,567	6,143	6,816
2014	11,285	6,485	7,227
2015 - 2019	65,576	33,310	38,040

11. Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets
Temporarily restricted net assets consist of the following at August 31:

	2009	2008
Plant replacement and expansion	$ 48,767	$ 31,138
Other patient services	8,457	12,060
Indigent care	6,318	6,506
Clinical services	3,382	3,414
Education	3,027	3,032
Total	$ 69,951	$ 56,150

11. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently Restricted Net Assets
SHC adopted FSP 117-1 effective for the beginning of fiscal year 2009. SHC has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SHC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, SHC considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund.
2. The purposes of SHC and the donor restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

Endowment funds by net asset classification as of August 31, 2009 and 2008 are as follows:

	2009			2008
Donor restricted endowment	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Donor restricted endowment	$ 4,373	$ 5,611	$ 9,984	$ 13,007
Pledge receivable	-	881	881	492
Total endowment	$ 4,373	$ 6,492	$ 10,865	$ 13,499

11. Temporarily and Permanently Restricted Net Assets (Continued)

Changes in SHC's endowment for the years ended August 31, 2009 and 2008 are as follows:

	2009			2008
Change in endowment net assets	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Endowment net assets, beginning of year	$ 7,007	$ 6,492	$ 13,499	$ 12,476
Investment return:				
Investment income	22	-	22	353
Mark to market adjustments	(2,594)	-	(2,594)	(28)
Total investment return	(2,572)	-	(2,572)	325
Contributions	-	-	-	981
Expenditures	(62)	-	(62)	(283)
Endowment net assets, end of year	$ 4,373	$ 6,492	$ 10,865	$ 13,499

The following provides descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only). The portion of endowment funds that is required to be retained permanently or temporarily, either by explicit donor stipulation or by California UPMIFA, as of August 31, 2009 and 2008 is as follows:

	2009			2008
Endowment classified as net assets	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
Restricted for:				
Clinical services	$ (97)	$ 4,000	$ 3,903	$ 4,929
Education	1,749	1,235	2,984	3,847
Plant replacement and expansion	(1)	901	900	940
Indigent care and other	2,722	356	3,078	3,783
Total endowment classified as net assets	$ 4,373	$ 6,492	$ 10,865	$ 13,499

Most of SHC's endowment, $10,865 and $13,499 are invested in the MP at August 31, 2009 and 2008, respectively. The funds are held in perpetuity, invested to generate income to support.

Return Objectives and Risk Parameters
The return objective for the endowment assets is to generate optimal total return while maintaining an appropriate level of risk established by the University.

Strategies Employed for Achieving Investment Objectives
SHC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gain) and current yield (interest and dividend) managed by the MP.

12. Related-Party Transactions

Transactions with the University and SoM
SHC has various transactions with the University and the SoM. SHC records expense transactions where direct and incremental economic benefits are received by SHC.

Expenses paid to the University and the SoM are reported as operating expenses in the statements of operations and changes in net assets and are management's best estimates of SHC's arms-length payments of such amounts for its market specific circumstances. To the extent that payments to the University and the SoM exceed an arms-length estimated amount relative to the benefits received by SHC, they are recorded as transfers to the University and the SoM in other changes in net assets.

SHC purchases certain services from the University and the SoM. Payment for these services is based on management's best estimate of its market specific circumstances.

Services provided by the SoM include physician services that benefit SHC, such as emergency room coverage, physicians providing medical direction to SHC, and physicians providing service to the clinical practice, which are covered by the Professional Services Agreement ("PSA"). Such expenses are reflected as purchased services in the consolidated statements of operations and changes in net assets, and total $249,237 and $215,403 for the years ended August 31, 2009 and 2008, respectively.

Services provided by the University include telecommunications, transportation, utilities, blood products, and certain administrative services, which consist of legal, internal audit, and risk management. Total costs incurred by SHC were $85,833 and $72,953 for the years ended August 31, 2009 and 2008, respectively, and are reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC paid service fees to the University in the amount of $4,155 and $4,406 for the years ended August 31, 2009 and 2008, respectively. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements, parking garages and generators and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 24 years total $48,738. Annual service fees range from approximately $4,026 for the year ending August 31, 2010 to $453 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, and security. Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled $33,910 and $24,064 for the years ended August 31, 2009 and 2008, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $4,912 and $5,443 for the years ended August 31, 2009 and 2008, respectively, and is reflected in the statements of operations and changes in net assets as net patient service revenue and recoveries.

During the year ended August 31, 2004, SHC paid $5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short term portion of $108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2009 and 2008. The remaining amount included in other assets in the consolidated balance sheets is $4,565 and $4,673 as of August 31, 2009 and 2008, respectively.

12. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
For the years ended August 31, 2009 and 2008, SHC transferred $8,049 and $7,675 to the University related to academic grants.

During the year ended August 31, 2009, SHC received an equity transfer of $15,167 which represented gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC capital projects.

Transactions with LPCH
Shared Services - SHC and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $20,161 and $25,223 for the years ended August 31, 2009 and 2008, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Purchased Services - SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $53,007 and $50,113 for the years ended August 31, 2009 and 2008, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other Services - Other services provided by SHC include services provided by interns and residents, billings and collections, building maintenance and utilities. Reimbursement of these services totaled $25,559 and $23,444 for the years ended August 31, 2009 and 2008, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries. SHC also leased 2,732 and 2,513 full time and part time employees to LPCH during the years ended August 31, 2009 and 2008, respectively.

Transfers to LPCH
Effective September 1, 2006, LPCH and the University entered into the LPCH PSA pursuant to which the University assigned to LPCH the right to all revenues related to pediatric and obstetric practices of SoM faculty. As part of the LPCH PSA, LPCH assumed the right to all pediatric and obstetric revenues after September 1, 2006. SHC transferred net assets of $807 to LPCH in connection with this transfer agreement during the year ended August 31, 2008.

In 2008, SHC agreed to execute an equity transfer of $2,001 to LPCH which represents a fixed allocation of 18% of the total net assets of SUMIT as of August 31, 2007. Previously net assets were allocated relative to the percentage of the premiums paid to SUMIT in each fiscal year. In 2009, $288 was transferred to SHC which represents 18% of the initial capital contribution made by SHC of which SHC owns 100%.

13. Operating and Capital Leases

SHC leases various equipment and facilities under non-cancelable lease agreements expiring at various dates. Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the years ended August 31, 2009 and 2008 was $35,575 and $32,947, respectively.

Net minimum future lease payments under all non-cancelable operating leases and capital lease obligations for periods subsequent to August 31, 2009 are as follows:

Year Ending August 31,	Operating	Capital
2010	$ 27,770	$ 1,396
2011	21,644	1,396
2012	20,629	976
2013	19,790	136
2014	16,448	57
Thereafter	110,742	-
	$ 217,023	3,961
Less amount representing interest		(190)
Subtotal		3,771
Current portion		(1,296)
Long-term portion, net of current portion		$ 2,475

Capital lease obligations totaled $3,771 of which $1,296 is included in accounts payable and accrued liabilities on the consolidated balance sheet. The remaining capital lease obligation of $2,475 is included in other long term liabilities on the consolidated balance sheet.

SHC leases space in its medical office building to others under noncancelable operating lease arrangements. Future minimum base rentals to be received under these leases in place as of August 31, 2009 are as follows:

Year Ending August 31,	
2010	$ 637
2011	164
2012	166
2013	135
2014	56
	$ 1,158

14. Commitments and Contingencies

SHC is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on SHC's financial position.

SHC has irrevocable standby letters of credit in the amount of $14,619, which are required as security for the workers' compensation self-insurance arrangement and a direct pay letter of credit for the 2008 Series A-2 debt in the amount of $105,674. In fiscal year 2009, SHC obtained standby letters of credit in the amount of $85,000 to support collateral requirements under certain interest rate swap agreements. No amounts have been drawn on these letters of credit as of August 31, 2009.

At August 31, 2009, SHC had contractual obligations of approximately $133,666 primarily related to the construction of the new Hospital, the upgrade of the clinical information systems and consulting services.

Effective September 1, 2004, SHC entered into a seven year agreement with Perot Systems Health Care Services LLC ("Perot"), pursuant to which Perot will provide certain information technology services to SHC. Under the terms of the 2008 amended agreement, SHC will be charged a fixed annual service charge including expenses, payable monthly, for core services as defined, and additional fees plus expenses for special projects. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately $41,919 for the year ending August 31, 2010, decreasing annually thereafter to approximately $39,398 for the year ending August 31, 2011. SHC has certain rights to reduce the scope of services to be purchased and to terminate the agreement early for a termination fee. The amount of the termination fee depends on when the right to terminate is exercised and reduces annually to $6,000 for the year ending August 31, 2010.

Effective April 1, 2008, SHC entered into a five year agreement with Accenture LLC ("Accenture"), pursuant to which Accenture will provide certain information technology services to SHC. Under the terms of the agreement, SHC will be charged a fixed annual service charge including expenses, payable monthly, for core services as defined, and additional fees plus expenses for special projects. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately $12,157 for the year ending August 31, 2010, decreasing annually thereafter to approximately $250 for the year ending August 31, 2012. SHC has certain rights to reduce the scope of services to be purchased and to terminate the agreement early for a termination fee. The amount of the termination fee depends on when the right to terminate is exercised and reduces periodically from $2,600 for the year ending August 31, 2010 to $450 at September 30, 2011.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as to regulatory actions unknown or unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations that could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SHC is subject to similar regulatory reviews, and while such reviews may result in repayments and/or civil remedies that could have a material effect on SHC's financial results of operations in a given period, management believes that such repayments and/or civil remedies would not have a material effect on SHC's financial position.

14. Commitments and Contingencies (Continued)

The percentage of SHC employees excluding LPCH leased employees that are covered by collective bargaining arrangements is approximately 38%. There are currently no expired agreements.

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as non-compliant in the event of an earthquake must be retrofitted, replaced or removed from acute-care service by applicable deadlines in 2013, 2015, or 2030.

The State of California has classified a substantial portion of SHC's facilities as compliant with seismic safety structural standards until 2030 and beyond. However, some acute care activities are located in facilities that current law requires to be made compliant or to be taken out of service by 2013 or, under prescribed circumstances, by 2015. SHC plans to construct a new hospital facility to address seismic safety requirements and other needs. Applications for state and local approvals are pending. SHC also is seeking passage of legislation to extend deadlines and requirements. In light of uncertainties in the timing of approvals and in the duration of construction of the new hospital, and considering economic conditions and other factors that will likely extend completion of replacement facilities beyond currently applicable deadlines, SHC has also developed preliminary contingency plans to retrofit portions of noncompliant facilities in order to reduce the duration of service disruptions and closures of bed units should such action be required. If undertaken, the preliminary estimated construction cost of such retrofitting currently ranges between $200,000 and $300,000.

15. Functional Expenses

Expenses are categorized on a functional basis for the years ended August 31:

	2009	2008
Patient services	$ 1,592,313	$ 1,418,605
Management and general	136,049	128,943
Fundraising	4,635	2,758
Total functional expenses	$ 1,732,997	$ 1,550,306

16. Subsequent Events

Stanford Hospital has evaluated subsequent events occurring between the end of the most recent fiscal year and December 7, 2009, the date the financial statements were available for issuance.

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture of Trust, dated as of December 1, 1990 (as supplemented and amended, the "Master Indenture"), between Stanford University Hospital, currently known as Stanford Hospital and Clinics (the "Corporation"), First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A, as master trustee (the "Master Trustee"), the Supplemental Master Indenture for Obligation No. 28, dated as of June 1, 2010 (the "Supplemental Master Indenture"), between the Corporation and the Master Trustee, the Indenture, dated as of June 1, 2010 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and The Bank of New York Mellon Trust Company, N.A., as trustee, and the Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Authority and the Corporation. This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement and is qualified in its entirety by reference to the full terms of the Master Indenture, the Supplemental Master Indenture, the Indenture and the Loan Agreement. All capitalized terms used and not otherwise defined in this Official Statement have the meanings assigned to such terms in the Indenture or, if not set forth in the Indenture, in the Master Indenture.

DEFINITIONS OF CERTAIN TERMS

Account Control Agreement means an agreement providing for control of deposit accounts within the meaning of Division 9 of the California Commercial Code, including Section 9104 of the California Commercial Code, entered into by one or more Members of the Obligated Group, the Master Trustee and a Depository Bank.

Accountant means, for purposes of the Indenture, any independent certified public accountant or firm of such accountants of national reputation selected by the Corporation.

Accountant means, for purposes of the Master Indenture, any firm of nationally recognized independent certified public accountants selected by the Obligated Group Representative, and not objected to by the Master Trustee.

Act means the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

Additional Indebtedness means any Indebtedness (including all Obligations) incurred subsequent to the issuance of the first Obligations issued under the first Related Supplement executed pursuant to the Master Indenture. Additional Indebtedness shall not include Obligations issued to secure Master Indenture Obligation Payments.

Additional Payments means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Loan Agreement.

Administrative Fees and Expenses means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee, including Additional Payments.

Affiliate means: (1) a nonprofit corporation, a majority of the members of the Governing Body of which are (a) the same as the corporate members or directors of a Member, (b) subject to election or appointment by a Member, (c) subject to election or appointment by a corporation that has the power to elect or appoint at least 50% of the members of the Governing Body of a Member, or (d) that has the power to elect or appoint a majority of the members of the Governing Body of a Member; or (2) a for-profit corporation, at least 50% of whose voting stock is owned by a Member or an Affiliate.

Agreement or **Loan Agreement** means that certain Loan Agreement, dated as of June 1, 2010, between the Authority and the Corporation, as originally executed as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness; provided that if a Qualified Financial Products Agreement or Interest Rate Exchange Agreement has been entered into by any Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service. In addition, any so-called mark-to-market charge or credit attributable to any Qualified Financial Products Agreement or Interest Rate Exchange Agreement that is not actually payable shall be excluded from calculation of revenues and expenses, in each case, of each Member of the Obligated Group and all related definitions and financial covenants for all purposes of the Master Indenture.

Architect's Certificate means a certificate signed by a duly authorized officer or agent of the architects, engineers or supervising contractors selected by a Member in connection with the construction or equipping of any project for which Long-Term Indebtedness is issued.

Authority means the California Health Facilities Financing Authority created pursuant to, and as defined in, the Act, and its successor.

Authorized Denomination means $5,000 or any integral multiple thereof.

Authorized Representative means with respect to the Corporation, the Chair or Vice Chair of its governing body, its chief executive officer, its chief operating officer, its chief financial officer, or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation, signed by its chief executive officer, its chief operating officer or its chief financial officer and filed with the Trustee.

Authorized Representative of the Obligated Group Representative means the chairman of the governing body or the chief executive officer or the chief financial officer or any other person designated as an Authorized Representative of the Obligated Group Representative by a certificate of the Obligated Group Representative signed by the chairman of the governing body, the chief executive officer or the chief financial officer of the Obligated Group Representative and filed with the Master Trustee.

Balloon Indebtedness means Long-Term Indebtedness of a Member, 25% or more of the principal of which becomes due (either by maturity or mandatory redemption) during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date.

Bondholder or **Holder**, whenever used with respect to a Bond, means the person in whose name such Bond is registered.

Bond Counsel means any nationally recognized municipal bond counsel acceptable to the Authority and the Corporation.

Bonds means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2010 Series A and 2010 Series B authorized by, and at any time Outstanding pursuant to, the Indenture.

Bond Trustee or **Trustee** means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, and any successor to its duties under the Indenture.

Book Value means, when used in connection with Property, Plant and Equipment or other Property of any Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Member and 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 of each Member determined in such a way that no portion of such value of property of any Member is included more than once.

Business Day means any day other than: (a) a Saturday, Sunday or legal holiday, (b) a day on which banks located in any city in which the Principal Office of the Trustee is located are required or authorized by law to remain closed, or (c) a day on which the New York Stock Exchange or the Securities Depository is closed.

Certificate, Statement, Request and Requisition of the Authority or the Corporation mean, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by its Chairman, any Deputy to the Chairman, the Executive Director or such other person as may be authorized to sign for the Authority and designated by the Chairman, any Deputy to the Chairman or the Executive Director in writing to the Trustee, or in the name of the Corporation by an Authorized Representative of the Corporation.

Children's Agreement means that certain agreement, dated as of November 4, 1982, as originally executed and as it may from time to time be amended or supplemented in accordance with the terms thereof, among LPCH, the Corporation and Stanford University.

Code means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

Collateral means all of the following whether now existing or hereafter created or acquired (a) all Gross Revenues, (b) all accounts comprising the Gross Revenue Fund, (c) all accounts and accounts receivable, including health-care-insurance receivables, and (d) all proceeds of any of the foregoing. The terms "accounts" and "health-care-insurance receivables" are used herein with meanings as defined in the California Commercial Code Division 9. Notwithstanding the foregoing, "Collateral" shall not include Restricted Assets.

Completion Indebtedness means any Long-term Indebtedness incurred by the Obligated Group or any Member for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, (i) to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and (ii) in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, (iii) modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken, such necessity as described in clause (i) and such conformity as described in clause (iii) to be certified in an Officer's Certificate and such accord as described in clause (ii) to be certified in an Architect's Certificate, both delivered to the Master Trustee prior to the incurrence of such Completion Indebtedness.

Construction Index means the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency or, if such index is no longer published, another index that is certified to be comparable and appropriate by the Obligated Group Representative in an Officer's Certificate delivered to the Master Trustee and which other index is acceptable to the Master Trustee.

Continuing Disclosure Agreement means that certain Continuing Disclosure Agreement, dated the Issue Date, between the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee and as

dissemination agent, as originally executed and as it may be supplemented, modified or amended in accordance with its terms.

Corporation means Stanford Hospital and Clinics, a nonprofit public benefit corporation duly organized and validly existing under the laws of the State of California, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

Counsel means an attorney duly admitted to practice law before the highest court of any state.

Current Value means: (a) with respect to Property, Plant and Equipment: (i) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser acceptable to the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than 3 years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (ii) the Book Value of any Property, Plant and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated; minus (iii) the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date as of which such Book Value was determined or the date of such report, as the case may be, to the earlier of the date of disposition of such Property, Plant and Equipment or the date as of which Current Value is to be calculated; and (b) with respect to any other Property, the fair market value of such Property, which fair market value shall be evidenced in a manner acceptable to the Master Trustee.

Debt Service means, with respect to the period of time for which calculated, the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid during such period on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during such period to pay principal or interest on Long-Term Indebtedness.

Depository Bank means a financial institution which has entered into an Account Control Agreement with one or more Members and the Master Trustee.

DTC means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and it successors and assigns.

Electronic Notice means notice by telegram, telex, telecopy, electronic mail or other telecommunications or electronic telecommunications device capable of creating a written notice that is operative as between the parties and acceptable for use by them.

Environmental Laws means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to Hazardous Materials to which the Corporation or any property of the Corporation is subject.

Event of Default, for purposes of the Indenture, means any of the events of default specified in the Indenture and, for purposes of the Master Indenture, means any of the events of default specified in the Master Indenture.

Favorable Opinion of Bond Counsel means an opinion of Bond Counsel, addressed to the Trustee, to the effect that the action proposed to be taken with respect to a Series of Bonds is authorized or permitted by the Indenture and will not, in and of itself, adversely affect any exclusion of interest on the applicable Series of Bonds from gross income for purposes of federal income taxation.

Financial Product Payments means regularly scheduled payments required to be paid to a counterparty by a Member pursuant to an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement or pursuant to contractual obligations to reimburse insurers or sureties of such payments.

Financial Product Receipts means regularly scheduled payments required to be paid to a Member by a counterparty pursuant to an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement.

Financial Product Extraordinary Payments means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated group Member under an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement, which payments are not Financial Product Payments.

Financing means a borrowing in connection with which an Obligation is issued under the Master Indenture.

Fiscal Year means that period adopted by the Obligated Group Representative as the annual accounting period for which consolidated or combined financial statements of the Obligated Group will be prepared pursuant to the provisions of the Master Indenture.

Fitch means Fitch, Inc., doing business as Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Trustee.

Governing Body means when used with respect to any Member, its board of directors, board of trustees, or other board or group of individuals in which all of the powers of such Person are vested except for those powers reserved to the corporate membership thereof the articles of incorporation or bylaws of such Person.

Government Issuer means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

Government Obligations means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully guaranteed by the United States of America; (2) certificates that evidence ownership of the right to the payment of the principal of and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company acceptable to the Master Trustee in a special account separate from the general assets of such custodian; and (3) obligations (a) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (b) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2), and (c) that are rated in the highest rating category (without regard to any refinement or graduation by a numerical modifier or otherwise) by S&P and Moody's (in each case if such rating agency is then rating any Related Bonds).

Gross Revenues means all revenues, income, receipts and money now existing or hereafter received by each Member, including (a) gross revenues collected from its operations and possession of and pertaining to its properties, (b) gifts, grants, bequests, donations and contributions, (c) proceeds derived from (i) condemnation, (ii) insurance, (iii) accounts and accounts receivable, including health-care-insurance receivables, (iv) payment intangibles, (v) inventory and other tangible and intangible property, (vi) medical reimbursement programs and agreements, (vii) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Member, and (d) rentals received from the lease of real estate. Notwithstanding the foregoing, "Gross Revenues" shall not include Restricted Assets.

Gross Revenue Fund means the fund by that name established pursuant the provisions of the Master Indenture.

Guaranty means all loan commitments and all obligations of any Member guarantying in any manner whatever, whether directly or indirectly, any obligation of any other Person that would, if such other Person were a Member, constitute Indebtedness.

Hazardous Materials means dangerous, toxic or hazardous pollutants, contaminants, chemicals, waste, materials or substances (as defined in Environmental Laws), and also any urea formaldehyde, polychlorinated biphenyls, asbestos, asbestos containing materials, nuclear fuel or waste, radioactive materials, explosives, carcinogens and petroleum products, or any other waste, material, substance, pollutant or contaminant the improper storage, disposal or release of which would subject the person so storing, disposing or releasing (or the owner of the property on which such action occurs) to any damages, penalties or liabilities under any applicable law, regulation, requirement or rule.

Historical Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Debt Service for such period.

Historical Pro Forma Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness then Outstanding and the Long-Term Indebtedness proposed to be issued.

Holder or **Bondholder**, whenever used with respect to a Bond, means the person in whose name such Bond is registered.

Holder or **Obligation Holder**, whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form that is not registered or is registered to bearer.

Income Available for Debt Service means, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members, net income after taxes) of the Obligated Group for such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles; provided that no such determination shall include: (i) any gain or loss resulting from (a) the extinguishment of Indebtedness, (b) any disposition of capital assets not made in the ordinary course of business, (c) any discontinued operations, (d) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles or (e) any reappraisal, revaluation or write-up or write-down of assets or liabilities, including without limitation termination payments paid or received with respect to Interest Rate Exchange Agreements and other interest rate hedge and similar agreements; (ii) unrealized gains or losses on marketable securities held by any Member as of the last date of such period of time; (iii) any nonrecurring items that do not involve the receipt, expenditure or transfer of assets, including any Interest Rate Exchange Agreements or other interest rate hedge and similar arrangements; or (iv) any revenue or expenses of an Affiliate which is not a Member.

Indebtedness means: (1) any Guaranty (other than any Guaranty by any Member of Indebtedness of any other Member); and (2) any indebtedness or obligation of any Member of the Obligated Group for borrowed money, as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, rental obligations under leases that are considered capital leases under generally accepted accounting principles, except for obligations of a Member to another Member; provided, however, that if more than one Member shall have incurred or assumed a Guaranty of a Person other than a Member, or if more than one Member shall be obligated to pay any obligation, for purposes of computations or calculations under the Master Indenture such Guaranty or obligations shall be included only one time. Interest Rate Exchange Agreements and Qualified Financial Products Agreements shall not constitute Indebtedness.

Indenture means that certain Indenture, dated as of June 1, 2010, between the Authority and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Independent Consultant means a firm (but not an individual) that: (1) is in fact independent; (2) does not have any direct financial interest or any material indirect financial interest in any Member or any Affiliate; and (3) is not connected with any Member or any Affiliate as an officer, employee, promoter, trustee, partner, director or person performing similar functions, and designated by the Obligated Group Representative and approved by the Master Trustee, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Obligated Group and having a favorable reputation for skill and experience in the financial affairs of such facilities.

Industry Restrictions means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Members.

Insurance Consultant means a person or firm (which may be an insurance broker or agent of a Member) who is not, and no member, director, officer or employee of which is, an officer or employee of any Member, designated by the Obligated Group Representative and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations, which Insurance Consultant may be the Risk Manager of the Corporation unless the Master Trustee shall require otherwise.

Interest Fund means the fund by that name established pursuant to the provisions of the Indenture.

Interest Payment Date means November 15 and May 15 of each year, commencing November 15, 2010.

Interest Rate Exchange Agreement means an agreement, commonly known as an "interest rate swap," whereby the Obligated Group or any Member of the Obligated Group agrees with a third party to pay such third party's interest on a mutually agreed upon notional amount in exchange for such third party's agreement to pay the Obligated Group's or such Member of the Obligated Group's interest on such amount, all at such interest rates and over such periods of time as may be mutually agreed upon; provided that no such agreement shall entail any exchange of principal or any assumption of liability for the payment of the principal of or interest on any Indebtedness of the Obligated Group, such Member of the Obligated Group, or such third party, as the case may be.

Investment Securities means any of the following which at the time are legal investments under the laws of the State of California for moneys held under the Indenture and then proposed to be invested therein:

(1) United States Government Obligations;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: (a) Export-Import Bank; (b) Rural Economic Community Development Administration; (c) U.S. Maritime Administration; (d) Small Business Administration; (e) U.S. Department of Housing & Urban Development (PHAs); (f) Federal Housing Administration; and (g) Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (a) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); (b) obligations of the Resolution Funding Corporation (REFCORP); and (c) senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, including trust funds, trust account, time deposits, overnight bank deposits, interest bearing deposits, interest bearing money market accounts, certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the Corporation), federal fund and bankers' acceptances with domestic commercial banks (including the Trustee or any of its affiliates) which

have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than three hundred sixty (360) calendar days after the date of purchase;

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" or "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in money market funds rated "AAAm" or "AAm-G" or better by S&P or having a rating in the highest investment category granted thereby from Moody's, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from money market funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such money market funds, and (iii) services performed for such money market funds and pursuant to this Indenture may at times duplicate those provided to such money market funds by the Trustee or an affiliate of the Trustee;

(7) Pre-refunded municipal obligations defined as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (a) which are rated, based on irrevocable escrow account or fund (the "escrow"), in the highest Rating Category of Moody's or S&P or any successors thereto; or (b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or United States Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(8) Municipal obligations rated "Aaa/AAA" or general obligations of states of the United States of America with a rating of "A2/A" or higher by both Moody's and S&P.

Issue Date means June 16, 2010.

Lease or Stanford Lease means that certain Restatement and Assignment of Lease (Hospital and Hoover Pavilion), dated November 1, 1997, as amended by Amendment of Lease, dated March 31, 2000, among Stanford University, as lessor, the Corporation, as lessee, and UCSF Stanford Health Care, as assignee, which amended and restated that certain Lease and License Agreement, dated as of April 20, 1984, between Stanford University, as lessor, and the Corporation, as lessee.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Member has only a leasehold interest unless the Lien is with respect to such leasehold interest.

Loan Agreement or **Agreement** means that certain Loan Agreement, dated as of June 1, 2010, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

Loan Default Event means any of the events specified as such in the Loan Agreement.

Loan Repayments means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

Long-Term Indebtedness means Indebtedness having an original maturity greater than one (1) year or renewable at the option of a Member for a period greater than one (1) year from the date of original incurrence or

issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each calendar year.

Long-Term Indebtedness Ratio means the ratio determined by dividing the Obligated Group's total Long-Term Indebtedness by the sum of (a) such Long-Term Indebtedness and (b) the Obligated Group's total unrestricted fund balances (as reflected in or derived from the most recent audited combined financial statements of the Obligated Group prepared in accordance with generally accepted accounting principles).

LPCH means Lucile Salter Packard Children's Hospital at Stanford, a nonprofit public benefit corporation duly organized and validly existing under the laws of the State.

Mandatory Sinking Account Payment means the amount required by the Indenture to be paid by the Authority on any single date for the redemption or payment at maturity of Bonds.

Master Indenture means that certain Master Indenture of Trust, dated as of December 1, 1990, between the Corporation and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as master trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Master Indenture Obligation Payments means payments (however designated) required under any Obligation then Outstanding that secures an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement and that does not constitute Indebtedness.

Master Trustee means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor-in-interest to BNY Western Trust Company, as successor master trustee to First Interstate Bank, LTD., a national banking association organized and existing under the laws of the United States of America, or its successor, as master trustee under the Master Indenture.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) there shall be excluded from the calculation of Maximum Annual Debt Service (i) 80% of the Annual Debt Service on all obligations for which a Member has entered into a Guaranty or (ii) 100% of the Annual Debt Service on all obligations of a Person for which a Member has entered into a Guaranty if Income Available for Debt Service of the guaranteed Person is at least equal to 1.35 times Maximum Annual Debt Service of such Person (each quantity calculated as if such Person were a Member) for each of such Person's immediately preceding 3 fiscal years; provided that no Annual Debt Service shall be excluded with respect to a Guaranty of the Indebtedness of an Affiliate; and provided further that no such exclusion shall be permitted in any Fiscal Year in which the Member has made a payment with respect to the Guaranty;

(b) for any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement;

(c) for any Balloon Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Indebtedness is to be amortized over a period specified by the Obligated Group Representative up to 30 years in duration, beginning on the date of maturity of such Indebtedness or such earlier date as may be specified by the Obligated Group Representative, assuming level debt service and a rate of interest (determined as of the time of calculation of Maximum Annual Debt Service) equal to a rate certified by an independent financial advisor to be the

rate at which the Obligated Group could reasonably expect to borrow by issuing an Obligation with a term of 30 years;

(d) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to a rate certified by an independent financial advisor to be the rate at which the Obligated Group could reasonably expect to borrow by issuing an Obligation with a term of 30 years;

(e) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness that is payable in the then-current Fiscal Year from sources other than the proceeds of such Long-Term Indebtedness and other amounts on deposit in escrow to be applied to pay principal or interest on such Long-Term Indebtedness; and

(f) if moneys or Government Obligations have been deposited irrevocably with a trustee in an amount, together with earnings thereon, sufficient to pay all or a part of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall be excluded from the calculation of Maximum Annual Debt Service.

Member means each signatory to the Master Indenture (other than the Master Trustee), together with each other Person that is obligated under the Master Indenture to the extent and in accordance with the provisions of the Master Indenture, from and after the date upon which such Person joins the Obligated Group, but excluding any Member of the Obligated Group that withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

Members means the Corporation and each other Person that is then obligated under the Master Indenture.

Moody's means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Trustee.

Net Revenues means the sum of total net operating revenues, plus net non-operating revenues, as shown on the consolidated or combined financial statements of the Obligated Group, as determined in accordance with generally accepted accounting principles, plus any investment income that is offset against interest expense in accordance with generally accepted accounting principles and as a result is not included in total operating revenues or non-operating revenues.

1998 Series B Bonds means the California Health Facilities Financing Authority Revenue Bonds (UCSF-Stanford Health Care), 1998 Series B.

1998 Series B Trustee means U.S. Bank National Association, successor by merger to U.S. Bank Trust National Association.

Non-Recourse Indebtedness means any Indebtedness that is not a general obligation and that is secured by a Lien, 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.

Obligated Group means the Corporation and each other Person which becomes a Member of, and has not withdrawn from, the Obligated Group, in each case pursuant to the terms of the Master Indenture.

Obligated Group Representative means the Corporation or such other Member (or Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

Obligation means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, loan agreements, leases, notes, reimbursement agreements, Interest rate Exchange agreements or Qualified Financial Products Agreements. Reference to a Series of Obligations or to Obligations of a Series shall mean Obligations or Series of Obligations issued pursuant to a single Related Supplement.

Obligation Holder or **Holder**, whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form that is not registered or is registered to bearer.

Obligation No. 28 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 28.

Officer's Certificate means a certificate signed by the Authorized Representative of the Obligated Group Representative

Opinion of Bond Counsel, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

Opinion of Counsel, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Indenture or the Loan Agreement, means a written opinion of counsel (who may be counsel for the Authority) not objected to by the Authority.

Opinion of Counsel, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney of firm of attorneys (who may be counsel for the Obligated Group Representative) or other counsel acceptable to the Master Trustee.

Optional Redemption Account means the account by that name in the Redemption Fund established pursuant to the provisions of the Indenture.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture concerning disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the defeasance provisions of the Indenture; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been executed and delivered by the Trustee pursuant to the provisions of the Indenture; and (4) Bonds paid pursuant to the provisions of the Indenture relating to mutilated, lost, destroyed or stolen Bonds.

Outstanding, when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than: (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation; (b) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related 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; (c) any Obligation held by any Member of the Obligated Group; and (d) Indebtedness deemed paid and no longer outstanding pursuant to the terms of the Master Indenture; provided, however, that if two or more obligations that constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit that secures such Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation that produces the greater amount of Debt Service to be included in the calculation of such covenants. Any Obligation relating to an

Interest Rate Exchange Agreement or Qualified Financial Products Agreement shall be deemed to be Outstanding under the Master Indenture equally and ratably with all other Obligations Outstanding under the Master Indenture and for consideration in applying the provisions of Article VII of the Master Indenture regarding defeasance and shall not be entitled to exercise any rights under the Master Indenture except as may be set forth in the Related Supplement pertaining thereto as provided in Section 2.02 of the Master Indenture.

Permitted Encumbrances means and includes:

(a) Any judgment lien or notice of pending action against any Member so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) 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; (ii) any liens on any Property for taxes, assessment, levies, fees, water and sewer charges, 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, that are not due and payable or that are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than 60 days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property that do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; and (v) to the extent that it affects title to any Property, the Master Indenture;

(c) Any Lien described in Exhibit A of the Master Indenture that is existing on the date of execution thereof, provided that no such Lien or the amount of Indebtedness secured thereby (other than Liens described in clause (b) of this definition) may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(d) Any Lien in favor of the Master Trustee securing all Obligations (other than Non-Recourse Indebtedness) on a parity basis;

(e) Liens arising by reason of good faith deposits with any Member of the Obligated 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 Obligated 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;

(f) 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 Obligated 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 similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits that any Member is required to maintain with the bank in question;

(g) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(h) Any Lien on the proceeds of Indebtedness in favor of the trustee with respect to such Indebtedness prior to the application of such proceeds;

(i) Liens on moneys deposited by patients or others with any Member as security for or as prepayment for the cost of patient care;

(j) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the fair market value of such Property;

(k) Statutory rights of the United States of America by reason of federal funds made available under 92 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(l) Liens securing Non-recourse Indebtedness;

(m) Liens on Property acquired by a Member if an Officer's Certificate is delivered to the Master Trustee certifying that (i) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than a Member prior to the acquisition of such Property by a Member, and (ii) the Lien was created prior to the decision of the Member to acquire the Property and was not created for the purpose of enabling a Member to avoid the limitations as set forth in the Indenture on creation of Liens on Property of the Obligated Group;

(n) Liens resulting from a Person's becoming a Member pursuant to the provisions of the Master Indenture or from a consolidation, merger or acquisition of assets pursuant to the provisions of the Master Indenture;

(o) Liens on accounts receivable and the proceeds thereof, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member selling the same; and, provided, further, that immediately following the creation of such Lien, the aggregate amount of accounts receivable subject to all such Liens does not exceed 25% of the amount of all of the accounts receivable of the Obligated Group and all transactions must be at fair market value;

(p) Leases that relate to Property of a Member, as lessor, that is of a type that is customarily the subject of such leases, such as office space for physicians, health care and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments; any leases entered into in accordance with the provisions of the Master Indenture; leases, licenses or similar rights existing as of the date of the initial execution and delivery of the Master Indenture to use Property owned on such date by any Person who was a Member on such date, and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Member is lessee, licensee or the equivalent thereof;

(q) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Member;

(r) Liens created on Property in connection with the sale/leaseback or lease/leaseback financing of such Property, provided that a first mortgage lien on such Property satisfying the requirements of the Master Indenture is granted in connection therewith;

(s) Any other Lien on Property provided that:

(i) the Current Value of all Property encumbered by all Liens permitted by this clause (s) does not exceed 10% of the Current Value of all Property of the Obligated Group at the time of creation of such Lien; or

(ii) the Book Value of all Property encumbered by all Liens permitted by the this clause (s) does not exceed 10% of the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iii) the principal amount of Indebtedness secured by all Liens permitted by this clause (s) does not exceed 10% of the lesser of the Current Value and the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iv) after giving effect to all Liens permitted by this clause (s), the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the incurrence of such Lien; and

(t) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease or the Children's Agreement.

Notwithstanding any other provision of the Master Indenture to the contrary, for so long as any Bond remains Outstanding, the sum of all Liens permitted in clauses (l), (m), (n), (o), (s) and (t) may not exceed 15% of the Book Value of all Property.

Person means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Fund means the fund by that name established pursuant to the provisions of the Indenture.

Principal Office means, solely with respect to the surrender of Bonds for payment, transfer, or exchange, such office as is designated by the Trustee, and for all other purposes, the corporate trust office of the Trustee located at 700 South Flower Street, Suite 500, Los Angeles, California 90017, Attention: Corporate Trust Services or such other or additional offices as may be designated by the Trustee from time to time.

Primary Obligor means that Member or those Members primarily obligated to make Required Payments with respect to any particular Obligation as set forth in a Related Supplement.

Program means the Authority's program of making loans under the Act.

Projected Debt Service Coverage Ratio means, for any future period of time, the ratio determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness expected to be Outstanding during such period.

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

Property, Plant and Equipment means all Property of the Obligated Group that is considered property, plant and equipment of such Persons under generally accepted accounting principles.

Qualified Financial Products Agreement means an Interest Rate Exchange Agreement.

Rating Agency means, as and to the extent applicable, any nationally recognized securities rating service, including Fitch or Moody's or S&P, then maintain a rating on the Bonds at the request, or upon application, of the Corporation.

Rating Category means a generic securities rating category, without regard to any refinement or gradation of or within such rating category by a numerical modifier or otherwise.

Rebate Fund means the fund by that name established pursuant to the provisions of the Indenture.

Record Date means with respect to each Interest Payment Date the first day (whether or not a Business Day) of the calendar month during which such Interest Payment Date occurs.

Redemption Fund means the fund by that name established pursuant to the provisions of the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Related Bonds means the revenue bonds or other obligations issued by any Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are lent or otherwise made available to the Corporation or another Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer or the Related Bond Trustee.

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 Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

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

Repository means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission or any successor agency thereto to receive reports pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Representation Letter means the Blanket Issuer Letter of Representation delivered to DTC by the Authority and any supplements and amendments thereto or any replacement therefor**.**

Required Payment means any payment required to be made by any Member under the Master Indenture, any Related Supplement, or any Obligation, whether at maturity, by acceleration, upon proceeding for redemption or otherwise.

Restricted Assets means any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or the payment of operating expenses.

Revenues means all amounts received by the Authority or the Trustee for the account of the Authority under the Indenture pursuant or with respect to the Loan Agreement or the Obligation No. 28, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any Administrative Fees and Expenses, any moneys required to be deposited or on deposit in the Rebate Fund or any amounts paid by the Corporation pursuant to the Loan Agreement.

S&P means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Trustee.

Securities Depository means DTC and its successors and assigns, or any other securities depository selected pursuant to the provisions of the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

Series or **Series of Bonds** when used with respect to Bonds, means all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds as provided in the Indenture.

Short-Term Indebtedness means all Indebtedness that has an original term less than or equal to one (1) year and that is not renewable or extendable at the option of a Member to a date or for a period ending more than one (1) year after the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each Fiscal Year.

Sinking Account means each account by that name in the Principal Fund established pursuant to the provisions of the Indenture.

Special Record Date means the date established by the Trustee pursuant to the provisions of the Indenture as a record date for the payment of defaulted interest on the Bonds.

Special Redemption Account means the account by that name in the Redemption Fund established pursuant to the provisions of the Indenture.

Stanford University or **University** means the Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State.

State means the State of California.

Subordinated Indebtedness means Indebtedness that by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment upon default to all Outstanding Obligations and all other obligations of a Member not containing such subordination provision.

Supplemental Indenture means any supplemental indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Supplement or **Supplement No. 28** means that certain Supplemental Master Indenture for Obligation No. 28, dated as of June 1, 2010, between the Corporation and the Master Trustee.

Supplement No. 28 or **Supplement** means that certain Supplemental Master Indenture for Obligation No. 28, dated as of June 1, 2010, between the Corporation and the Master Trustee.

Tax Agreement means that certain Tax Certificate and Agreement, dated the Issue Date, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms of the Tax Agreement.

Term Bonds means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date of dates.

Trustee or **Bond Trustee** means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or any successor to its duties under the Indenture.

2003 Series Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series B, 2003 Series C and 2003 Series D.

2003 Series B Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series B.

2003 Series C Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series C.

2003 Series D Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series D.

2003 Series Trustee means U.S. Bank National Association.

2010 Series A Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2010 Series A.

2010 Series B Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2010 Series B.

United States Government Obligations means direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America are pledged or obligations the payment of principal and interest on which are unconditionally guaranteed by the United States of America, including, but not limited to: (i) U.S. treasury obligations; (ii) all direct or fully guaranteed obligations; (iii) Farmers Home Administration; (iv) General Services Administration; (v) Guaranteed Title XI financing; (vi) Government National Mortgage Association (GNMA); and (vii) State and Local Government Series.

University or **Stanford University** means The Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State.

Unrestricted Liquid Funds means unrestricted cash, cash equivalents, and unrestricted marketable securities of the Obligated Group as of such date, from which there shall be subtracted the aggregate principal amount of all Short-Term Indebtedness of the Obligated Group outstanding as of such date and the aggregate amount of any collateral posted in connection with an Interest Rate Exchange Agreement or Qualified Financial Products Agreement as of such date.

Unsecured means, when used in connection with Indebtedness, not secured by a Lien; or, if secured by a Lien, that portion of such Indebtedness, if any, by which, at the date the Lien was granted, the amount of such Indebtedness exceeded the fair market value of the Property, securing such Indebtedness, as determined in good faith by the Obligated Group Representative.

Unsecured Debt Ratio means, as of any date of calculation, the ratio determined by dividing the Book Value, or (at the option of the Obligated Group Representative) the Current Value, of Property that is not subject to a Lien, by the aggregate principal amount of all Unsecured Indebtedness then Outstanding.

Variable Rate Indebtedness means Indebtedness that is payable or required to be purchases or redeemed upon demand of the holder thereof, prior to its stated maturity date.

MASTER INDENTURE

General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group. An Obligation is stated in the Master Indenture to be a joint and several obligation of each Member of the Obligated Group.

Authorization and Issuance of Obligations

Pursuant to the provisions of the Master Indenture, each Member authorizes the issuance from time to time of Obligations or a Series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, which Obligations or Series of Obligations shall be subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement. Pursuant to the provisions of the Master Indenture, the Obligated Group Representative, acting on behalf of the Obligated Group, may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement, subject to satisfaction of the terms, conditions and limitations of the Master Indenture. The Corporation is currently the only Member of the Obligated Group and has been designated the Obligated Group Representative pursuant to the provisions of the Master Indenture.

Interest Rate Exchange Agreements

From time to time, subject to the terms, limitations and conditions Master Indenture, the Obligated Group Representative may issue an Obligation or Series of Obligations securing an Interest Rate Exchange Agreement or Qualified Financial Products Agreement by entering into a Related Supplement. Such Related Supplement must name the Holder of the Obligation, state whether payments under the Obligation are subordinate in right of payment to any other Required Payments under the Master Indenture, and provide that Holder of such Obligation shall not be entitled to exercise any rights under the Master Indenture, including without limitation the right to vote or control remedies, other than the right to receive payment equally and ratably with all other Obligations, unless provided otherwise by the Related Supplement. The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Holders, but with the consent of the Holder of the Obligation identified in the Related Supplement, modify, alter, add to or rescind, in any particular, any of the terms or provisions contained therein.

Covenants

Payment of Principal and Interest. The Members jointly and severally covenant and agree to pay or cause to be paid promptly all Required Payments, including the principal of, and premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Maintenance of Properties. Each Member agrees that:

(a) That it will operate and maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof. Each Member, respectively, further covenants and agrees that it will maintain and operate its Property, Plant and Equipment and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of its Property, Plant and Equipment in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the operations of such Members will not be materially and adversely impaired.

(b) That it will pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges that may be or have been assessed or that may have become liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Property, Plant and Equipment or any part thereof; provided, however, that no Member shall be required to pay any tax, assessment, rate or charge as herein provided as long as it shall in good faith contest the validity thereof, provided that such Member shall have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate.

(c) That it will pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(d) That it will at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Properties or any part thereof or securing any of its Indebtedness that would have a material adverse effect on the operations of the Obligated Group or its Properties.

(e) That it will use its best efforts (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) to maintain all permits, licenses and other governmental approvals necessary for the operation of its Properties and to maintain its qualification for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

(f) That it will take no action or suffer any action to be taken by others that would result in the interest on any Related Bond becoming subject to federal income taxation.

Insurance. Each Member agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts that are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size. The Obligated Group Representative shall employ an Insurance Consultant at least once every 2 years to review the insurance requirements of the Members. If the Insurance Consultant makes recommendations for the increase of any of the Obligated Group's insurance coverage, the Obligated Group Representative 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 Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In lieu of maintaining insurance coverage, the Members shall have the right to adopt alternative risk management programs that the Governing Body of the Obligated Group Representative 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 shall be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

Negative Pledge. Each Member agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, and each Member further agrees that if such a Lien is created or assumed by any Member, it will obtain the written consent of the Obligated Group Representative and will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien; provided, however, that, each Member may create, assume or suffer to exist Permitted Encumbrances.

Limitations on Additional Indebtedness. Each Member, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, provided that:

(i) the aggregate principal amount of such Long-Term Indebtedness and all other Outstanding Long-Term Indebtedness incurred pursuant to this clause (i) does not exceed 25% of the Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the issuance of such Long-Term Indebtedness (provided that to the extent Long-Term Indebtedness initially incurred pursuant to this clause subsequently complies with any other incurrence requirement such Long-Term Indebtedness shall thereafter not be deemed to be incurred pursuant to this clause); or

(ii) there is delivered to the Master Trustee

(A) an Officer's Certificate certifying the Historical Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, and such Historical Debt Service Coverage Ratio is not less than 1.10:1.0; and

(B) an Officer's Certificate (accompanied by the written report of an Independent Consultant unless the Projected Debt Service Coverage Ratio for each of the Fiscal Years specified below is at least 1.50:1.0)

(1) stating (and certifying the calculation of) the Projected Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements (or the portion of such Long Term Indebtedness allocated in such Officer's Certificate to such use), the next Fiscal Year succeeding the date on which such capital improvements are expected to be in operation and (y) in the case of Long-Term Indebtedness not being incurred to finance capital improvements (or the portion of such Long-Term Indebtedness allocated in such Officer's Certificate to such use), the next Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred (it being understood that, if any such allocations are made, the portions described in clauses (x) and (y) must sum to 100% of the proposed Long-Term Indebtedness), and

(2) certifying that the Projected Debt Service Coverage Ratio for such Fiscal Year is not less than 1.10:1.0, as shown by forecasted statements of revenues and expenses for such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(iii) there is delivered to the Master Trustee the written report of an Independent Consultant stating that Industry Restrictions have or will make it impossible for the ratios described in clause (ii) above to be met, and that such ratios are not less than 1.0:1.0 and shall apply to the actual debt service on all Long-Term Indebtedness for such Fiscal Year rather than Maximum Annual Debt Service; or

(iv) there is delivered to the Master Trustee an Officer's Certificate certifying that the Historical Pro Forma Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, was at least 1.25:1.0 for the most recent Fiscal Year for which audited financial statements are available; or

(v) there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Indebtedness Ratio of the Obligated Group, taking into account the Long-Term Indebtedness to be incurred, does not exceed 0.67:1.0.

(b) Completion Indebtedness in an aggregate principal amount not exceeding 20% of the aggregate principal amount of Long-Term Indebtedness originally issued to finance the project to be completed.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness if prior to incurrence thereof the Master Trustee receives an Officer's Certificate stating that the issuance of such Long-Term Indebtedness will not increase Maximum Annual Debt Service by more than 15%.

(d) Short-term Indebtedness, provided that:

(i) the total amount of such Indebtedness does not exceed 20% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; and

(ii) with respect to Short-Term Indebtedness, in every Fiscal Year, there shall be at least a 20-day period when the balance of all such Short-Term Indebtedness is reduced to an amount that does not

exceed 5% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.

(e) Non-recourse Indebtedness without limitation.

(f) Balloon Indebtedness, provided that the conditions described in subsection (a) above are satisfied with respect to the incurrence of such Balloon Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service" set forth above.

(g) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit or liquidity facilities used to secure or provide liquidity for Indebtedness.

(h) Liabilities for contributions to alternative risk management programs described above under the caption "Master Indenture - Covenants of the Members - Insurance."

(i) Liabilities incurred in connection with an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement.

(j) Variable Rate Demand Indebtedness provided that the conditions described in subsection (a) above are met with respect to such Variable Rate Demand Indebtedness when it is assumed that such Variable Rate Demand Indebtedness bears interest at the rate described in clause (d) of the definition of "Maximum Annual Debt Service" set forth above.

(k) Liabilities incurred in connection with a sale of accounts receivable with recourse consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such liabilities permitted hereby shall not exceed the aggregate sales price of such accounts receivable; any limitation described under this subsection (k) being applicable only if such liabilities (in accordance with generally accepted accounting principles) constitute Indebtedness.

(l) Subordinated Indebtedness without limit.

So long as any Bond shall remain Outstanding, notwithstanding any other provision of the Master Indenture to the contrary, an Historical Debt Service Coverage Ratio of not less than 1:25:1.0 shall be required in order to incur Long-Term Indebtedness; provided that the Authority may waive, modify or amend such requirement without the consent of the Holder of any Obligation, the Master Trustee, the registered owner of any Bond or the Trustee; provided however that such Historical Debt Service Coverage Ratio shall not be less than the Historical Debt Service Coverage Ratio specified in the provisions of the Master Indenture described above.

Restrictions on Guaranties. Each Member agrees that it will not enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty except:

(a) Guaranties of Indebtedness or Interest Rate Exchange Agreements or Qualified Financial Products Agreements of another Member;

(b) Guaranties of Obligations issued under the Master Indenture; and

(c) Any other Guaranty, provided that the conditions described in subsection (a) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness" are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in clause (a) of the definition of "Maximum Annual Debt Service."

Rates and Charges; Debt Coverage. (a) Each Member agrees to fix, charge and collect, commencing with the first full Fiscal Year following the execution of the Master Indenture and subject to applicable requirements or restrictions imposed by law or regulation, such rates, fees and charges for the use of its facilities and for the services furnished or to be furnished that, together with all other receipts and revenues of the Obligated Group and

any other funds available therefor, will be reasonably projected to be sufficient in each Fiscal Year so that the Historical Debt Service Coverage Ratio of the Obligated Group as a whole at the end of such Fiscal Year is not less than 1.10:1.0.

(b) Within 150 days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture), the Obligated Group Representative shall compute Income Available for Debt Service, Annual Debt Service, and the Historical Debt Service Coverage Ratio for such Fiscal Year and shall promptly furnish to the Master Trustee a Certificate setting forth the results of such computation. The Obligated Group Representative further agrees that, if at the end of such Fiscal Year the Historical Debt Service Coverage Ratio shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Members or the methods of operation of the Members. Each Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination by its Governing Body that such recommendations (in whole or in part) are in the best interests of the Member, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If the Members comply in all material respects with the reasonable recommendations of the Independent Consultant in respect to said rates, fees, charges and methods of operation or collection, the Members will be deemed to have complied with the covenants of the Master Indenture described under this caption for such Fiscal Year notwithstanding that Income Available for Debt Service shall be less than the amount required as described in subsection (a) above; provided that the Members shall not be excused from taking any action or performing any duty required under the Master Indenture and that no other Event of Default shall be waived by the operation of the provision described in the Master Indenture.

(c) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the ratio described in subsection (a) above to be met and that the Obligated Group has generated the maximum amount of Income Available for Debt Service that, in the opinion of such Independent Consultant, could reasonably have been generated given such Industry Restrictions, then such ratio shall be reduced to 1.0:1.0.

(d) Notwithstanding the foregoing, a Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the governing body of such Member, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any instrumentality thereof, or in compliance with any recommendation for free services that may be made by an Independent Consultant.

So long as any Bond shall remain Outstanding, notwithstanding any other provision of the Master Indenture to the contrary, an Historical Debt Service Coverage Ratio of not less than 1:25:1.0 shall be required; provided, however, that the Authority may waive, modify or amend such requirement without the consent of the Holder of any Obligation, the Master Trustee, the registered owner of any Bond or the Trustee; provided however that such Historical Debt Service Coverage Ratio shall not be less than the Historical Debt Service Coverage Ratio specified in the provisions of the Master Indenture described above.

Sale, Lease or Other Disposition of Property. Each Member agrees that it will not, in any consecutive 12-month period, sell, lease or otherwise dispose of any of its Property that, together with all other Property transferred by Members during such 12-month period in transactions other than those described in subsection (a) through (g) below, totals for any consecutive 12-month period an amount in excess of 10% of the Property of the Obligated Group (calculated on the basis of the Book Value of the assets as shown on the most recent audited financial statements), except for transfers of Property:

(a) To any Person if prior to such sale, lease or other disposition, the Master Trustee receives an Officer's Certificate to the effect that such assets shall be or within the next 2 years become inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group and the disposition thereof will not materially and adversely impair the operations of the Members;

(b) To another Member of the Obligated Group;

(c) In the ordinary course of business, for the fair market value of the Property so disposed of, or in return for other Property of equal or greater value and usefulness;

(d) To a Person that is not a Member if such Person shall become a Member pursuant to the provisions of the Master Indenture substantially simultaneously with such transfer;

(e) To any Person, if such Property consists solely of assets that are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment of an Obligation or Long-Term Indebtedness or operating expenses;

(f) To another Person in connection with a sale/leaseback or lease/leaseback financing transaction relating to such Property, provided that the Member so transferring or leasing such Property grants a first mortgage lien, subject only to Permitted Encumbrances, to the Master Trustee securing the Member's obligations under the Master Indenture or which first mortgage lien shall be prior in interest to the transfer or lease of such Property to such other Person;

(g) To any Person upon delivery to the Master Trustee of: (i) an Officer's Certificate demonstrating that during the Fiscal Year immediately preceding the proposed disposition for which financial statements have been audited, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking into account such disposition, would not have been reduced to less than 1.75:1.0 or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such disposition, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such disposition had not occurred, or (iii) (A) a written report from an Independent Consultant stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such disposition, would not be less than 1.20:1.0, or an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately following delivery of such Officer's Certificate, taking into account such disposition, would not be less than 1.35:1.0 and (B) the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report or Officer's Certificate, as the case may be, taking into account such disposition, would not be lower than 65% of the Projected Debt Service Coverage Ratio for the Obligated Group determined as if such disposition had not occurred; or

(h) To any Person in connection with posting of collateral under an Interest Rate Exchange Agreement or Qualified Financial Products Agreement.

The foregoing provisions described in subsection (a) through (g) above notwithstanding, the Members further agree that no Member will sell, lease or otherwise dispose of Property if (a) the Unsecured Debt Ratio of the Obligated Group, as a result of such disposition, would be reduced from a ratio that was greater than 1.25:1.0 to a ratio that is less than 1.25:1.0 or, if such ratio was less than 1.25:1.0, would be reduced from what it was immediately prior to the sale, lease or other disposition, or (b) such disposition could reasonably be expected to result in a reduction of the Historical Debt Service Coverage Ratio for the Obligated Group such that the Obligated Group Representative would be obligated to retain an Independent Consultant pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Covenants of the Members - Rates and Charges; Debt Coverage," or (c) an Independent Consultant has been retained pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Covenants of the Members - Rates and Charges; Debt Coverage," and such disposition, in the opinion of such Independent Consultant, will have an adverse effect on the Income Available for Debt Service of the Obligated Group.

Nothing in the Master Indenture shall prohibit any Member from making secured or unsecured loans, provided that any such loan (i) is evidenced in writing and (ii) the Master Trustee receives an Officer's Certificate stating that (a) the Obligated Group Representative reasonably expects such loan to be repaid and (b) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

Consolidation, Merger, Acquisition, Sale or Conveyance. Each Member covenants that it will not merge or consolidate with any other corporation not a Member or acquire substantially all of the assets of a Person not a Member or sell or convey all or substantially all of its assets to any Person not a Member unless:

(a) After giving effect to the merger, consolidation, acquisition, sale or conveyance (hereinafter referred to under this caption as the "transaction"), the successor or surviving corporation (hereinafter, the "Surviving Corporation") will be the Member, or, if not, the Surviving Corporation shall be a corporation organized and existing under the laws of the United States of America or a State thereof and such Surviving Corporation shall become a Member pursuant to the provisions of the Master Indenture and shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing corporation under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture;

(b) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the date of the proposed merger, consolidation, acquisition, sale or conveyance, would be in default as a result of such merger, consolidation, acquisition, sale or conveyance in the performance or observance of any covenant or condition of the Master Indenture;

(c) So long as any Related Bonds are Outstanding, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such transaction would not cause interest payable on any Related Bonds to be includable in gross income for federal income tax purposes and that such transaction and the assumption of rights and obligations thereafter, complies with the provisions of the Master Indenture;

(d) The Master Trustee shall have received (i) an Officer's Certificate (and, if required by subsection (a) (ii) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness," a written report of an Independent Consultant) to the effect that the Obligated Group would be able to incur at least $1.00 of Long-Term Indebtedness immediately after such transaction pursuant to subsection (a) (ii), (iv) or (v) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness" (after giving effect to subsection (a) (iii) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness"), or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such transaction, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such transaction had not occurred; and

(e) After giving effect to the transaction, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than the Unsecured Debt Ratio for the Obligated Group immediately prior to the transaction.

In case of any such consolidation, merger, sale or conveyance, and upon such assumption of obligations, the Surviving Corporation shall be substituted for its predecessor in interest in all agreements, indentures, and Obligations then in effect, and the Surviving Corporation shall, upon the request of the Master Trustee, execute and deliver to the Master Trustee such documents and endorsements as the Master Trustee may reasonably require in order to effect the said substitution. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation shall, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were a Member of the Obligated Group as at the date of the execution of the Master Indenture and shall thereafter have the right to participate in Financings and in the securing of Master Indenture Obligation Payments hereunder to the same extent as the Members of the Obligated Group; and all Financings and the securing of Master Indenture Obligation Payments undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such merger, consolidation, sale or conveyance.

Gross Revenue Fund

Each Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in deposit accounts designated as the "Gross Revenue Fund"

which the Obligated Group Representative shall establish and maintain, subject to the provisions of the Master Indenture described in the following paragraph, at such banking institution as the Obligated Group Representative shall from time to time designate, in writing, for such purpose (herein called the "Depository Bank") and which has entered into an Account Control Agreement with the Members of the Obligated Group and the Master Trustee. As security for the payment of Required Payments and the performance by each of the Members of its other obligations under the Master Indenture, each Member pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to all Collateral, including Gross Revenues and the Gross Revenue Fund. Each of the Members shall execute the Account Control Agreement, shall execute and cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interest. Each Member irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral. Each Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives 30 days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Member at any time for any lawful purpose, except as otherwise provided in the Master Indenture. In the event that any Member is delinquent for more than one (1) Business Day in the payment of any Required Payment, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, if such Required Payment is not paid within ten (10) days after receipt of such notice, the Master Trustee shall be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to the Depository Bank. Upon delivery of the Order with respect to the Gross Revenue Fund, exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided pursuant to the provisions of the Master Indenture described in the preceding paragraph and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund are subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Member; provided, however, that Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Member agrees to execute and deliver all instruments as may be required to implement the provisions of the Master Indenture described under this caption. Each Member further agrees that a failure to comply with the terms of the Master Indenture described under this caption shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Members as provided pursuant to the provisions of the Master Indenture described under this caption.

Upon receipt of Gross Revenues, each Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Fund and not in any other fund or account; (ii) that the Gross Revenue Fund will be held as a deposit account at the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

Obligated Group Membership and Withdrawal

Membership in Obligated Group. Additional Members may be added to the Obligated Group from time to time provided that:

(a) There shall have been delivered to the Master Trustee a copy of a resolution of the proposed new Member that authorizes the execution of the Related Supplement described in subsection (b) below and that authorizes compliance with the terms of the Master Indenture;

(b) There shall have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Member agrees to become a Member, to be bound by the terms and restrictions imposed by the Master Indenture, and to be bound by Indebtedness or the Master Indenture Obligation Payments represented by the Obligations;

(c) There shall have been delivered to the Master Trustee an irrevocable power of attorney authorizing the execution of Obligations by the Obligated Group Representative;

(d) There shall be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(e) There shall be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness that the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(f) The Master Trustee shall have received (i) an Officer's Certificate (and, if required pursuant to the provisions of the Master Indenture, a written report of an Independent Consultant) to the effect that the Obligated Group would, immediately after the addition of the new Member to the Obligated Group, be able to incur $1.00 of Long-Term Indebtedness pursuant to the provisions of the Master Indenture described under subsection (a) (ii), (a)(iv) or (a)(v) under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness," or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such addition, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such addition had not occurred;

(g) There shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Member will not cause the interest payable on any Related Bonds to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended, nor cause a default under the Master Indenture;

(h) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(i) There shall be delivered to the Master Trustee an Officer's Certificate to the effect that after the addition of the new Member to the Obligated Group, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the addition of the new Member.

Withdrawal from Obligated Group. Any Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that:

(a) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) Such Member is not a Primary Obligor with respect to any Outstanding Obligations;

(c) The Master Trustee shall have received (i) an Officer's Certificate demonstrating that during the most recent Fiscal Year preceding the proposed withdrawal for which audited financial statements are available, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking into account such withdrawal, would not have been reduced to less than 1.75:1.0, or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such withdrawal, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such withdrawal had not occurred or (iii) (A) a written report from an Independent Consultant stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such withdrawal, would not be less than 1.20:1.0, or an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately following delivery of such Officer's Certificate, taking into account such withdrawal, would not be less than 1.35:1.0 and (B) the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report or Officer's Certificate, as the case may be, taking into account such withdrawal, would not be lower than 65% of the Projected Debt Service Coverage Ratio for the Obligated Group determined as if such withdrawal had not occurred;

(d) The Master Trustee shall have received an Opinion of Bond Counsel to the effect that the withdrawal of such Member will not cause the interest payable on any Related Bonds to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended; and

(e) The Master Trustee shall have received an Officer's Certificate to the effect that after giving effect to the withdrawal, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the withdrawal.

Events of Default and Remedies

Events of Default. Event of Default under the Master Indenture include:

(a) Failure on the part of the Obligated Group to make due and punctual payment of any Required Payment under an Obligation;

(b) Default in the payment of any Indebtedness for borrowed moneys (other than (i) Non-Recourse Indebtedness and (ii) an Obligation or Indebtedness in an aggregate principal amount of 2% or less of Net Revenues, as shown on the most recent audited financial statements of the Obligated Group), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be secured or evidenced any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur and any period of grace with respect thereto shall have expired; provided, however, that such default shall not constitute an Event of Default under the Master Indenture if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness;

(c) Failure of any Member to observe or perform any other covenant or agreement 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 Obligated Group Representative by the Master Trustee or to the Obligated

Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such 30-day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Master Trustee;

(d) Entry of a decree or order for relief in respect of any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member or for any substantial part of the property of any Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

(e) Any Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing; or

(f) An event of default shall exist under any Related Bond Indenture.

Acceleration; Annulment of Acceleration. (a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, (i) upon the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or upon the written request of any Holder if an Event of Default described under subsection (a) above under the caption "Master Indenture - Events of Default and Remedies - Events of Default" has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and shall be immediately due and payable, provided, however, that, if the terms of any Related Supplement give a person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In such event, there shall be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest that accrues on such principal and interest to the date of payment.

(b) 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 moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (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 or other payments of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may 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 under the Master Indenture, 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 or of any Holder if an Event of Default described above under subsection (a) under the caption "Master Indenture - Events of Default and Remedies - Events of Default" has occurred, 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 of Obligations;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and

(v) Enforcement of any other right or remedy of the Holders conferred by law or 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 given under the Master Indenture by any acts which may be unlawful or in violation under the Master Indenture, 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 of the Master Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Holders of Obligations not making such request.

Application of Moneys After Defaults. 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, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and advances incurred or made by the Master Trustee with respect thereto, 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 or the interest portion related to lease payments or the Financial Products Payments then due on the 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 due or coming due 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, the unpaid principal portion related to lease payments of any Obligations or other unpaid Required Payments that shall have become due, whether at maturity or by call for redemption or otherwise, in the order of their due dates, and, if the amounts available shall not be sufficient to pay in full all such amounts due on any date, then to the payment thereof ratably, according to the amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of or other Required Payments with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of principal and interest and lease payments or other Required Payments then due and unpaid upon the Obligations without preference or priority (except in each case to the extent subordinated in right of payment by the terms of any applicable Related Supplement or Obligation), or of any installment over any other installment, or of any Obligation over any other Obligation,

ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference except to the extent subordinated in right of payment by the terms of any applicable Related Supplement or Obligation.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter be rescinded and annulled under the provisions of the Master Indenture described under this caption, then, subject to the provisions of subsection (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 subsection (a) above.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of the Master Indenture described under this caption, 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.

Whenever all Obligations and interest thereon have been paid under the provisions of the Master Indenture described under this caption and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their successors, or as a court of competent jurisdiction may direct.

Holders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right to direct the method and place of conducting any proceeding 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 (including indemnity to the Master Trustee as provided in the Master Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Obligation Holders not joining in such direction.

Waiver of Event of Default. No delay or omission of the Master Trustee or of any Holder of the Obligations 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 under the Master Indenture. The Master Trustee may waive any Event of Default that has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it or before the completion of the enforcement of any other remedy under the Master Indenture. Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least 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 Master Indenture relating to acceleration, a default in the payment of the amounts due on any Obligation may not be waived without the written consent of the Holders of all the Outstanding Obligations.

Supplements and Amendments

Supplements Not Requiring Consent of Holders. The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Obligation Holders, enter into one or more Related Supplements for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission therein; (b) to correct or supplement any provision that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and that shall not materially and adversely affect the interests of the Holders; (c) to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended; (e) to create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture; (f) to obligate a successor to any Member of the Obligated Group; (g) to add a new Member; or (h) to make any other change that does not materially adversely affect the interests of the Holders of any Obligations.

Supplements Requiring Consent of Holders. Other than Related Supplements referred to in the immediately preceding paragraph, the Holders of not less a majority in aggregate principal amount of the Obligations then Outstanding shall have the right to consent to and approve the execution by the Obligated Group Representative and the Master Trustee of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, any of the terms or provisions contained in the Master Indenture. No Related Supplement shall be permitted that would: (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation, without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, 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 Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

Discharge of Master Indenture

Satisfaction and Discharge of Master Indenture. If (i) the Members shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) upon payment of all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation that have become due and payable, or (iii) the Members shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee) as trust funds the cash or Governmental Obligations or both the entire amount of moneys or Government Obligations, sufficient to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including the principal and interest due or to become due to such date of maturity or redemption date, as the case may be, such sufficiency to be evidenced by a report of an Accountant, and if the Members shall pay or cause to be paid all other sums payable under the Master Indenture, then the Master Indenture shall cease to be of further effect.

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 28

General

Supplement No. 28 provides for the issuance of Obligation No. 28 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 28 further secures the obligation of the Corporation arising under and pursuant to the Loan Agreement with respect to the Bonds.

Payments on Obligation No. 28; Credits

Principal of and interest on Obligation No. 28 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Except as provided in subsection (b) below with respect to credits, and as described under the caption "Prepayment of Obligation No. 28" below regarding prepayment, payments on the principal of and interest on Obligation No. 28 shall be made at the times and in the amounts specified in Obligation No. 28 by the Corporation (i) depositing the same with or to the account of the Trustee at or prior to the opening of business on the day such payments shall become due or payable (or on the next succeeding business day if such date is a Saturday, Sunday or bank holiday in the city in which the principal corporate trust office of the Trustee is located) and (ii) giving a notice to the Master Trustee and the Trustee of each payment of principal or interest on Obligation No. 28, specifying the amount paid, and identifying such payment as a payment on Obligation No. 28.

The Corporation shall receive credit for payment on Obligation No. 28, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 28 in an amount equal to moneys deposited in the Interest Fund created under the Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 28;

(ii) On installments of principal of Obligation No. 28 in an amount equal to moneys deposited in the Principal Fund created under the Indenture, to the extent such amounts have not previously been credited on Obligation No. 28;

(iii) On installments of principal and interest, respectively, on Obligation No. 28 in an amount equal to the principal amount of Bonds for the payment or redemption of which sufficient amounts (as determined by the provisions of the Indenture described below under the caption "The Indenture - Discharge of the Indenture") in cash or United States Government Obligations are on deposit as provided pursuant to the discharge provisions of the Indenture, to the extent such amounts have not been previously credited against payments on Obligation No. 28, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal of and interest on Obligation No. 28 that would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity or called for redemption; and

(iv) On installments of principal and interest, respectively, on Obligation No. 28 in an amount equal to the principal amount of Bonds acquired by the Corporation and delivered to the Trustee for cancellation or purchased by the Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 28 that would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due and, with respect to Bonds called for mandatory redemption, against principal installments that would have been used to pay Bonds of the same maturity.

Prepayment of Obligation

So long as all amounts that have become due under Obligation No. 28 have been paid, the Corporation shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 28. Prepayments may be made by payments of cash or surrender of Bonds as described above under the caption "Payments on Obligation No. 28; Credits". All such prepayments shall be deposited upon receipt in the Optional Redemption Account and, at the request of and as determined by the Corporation, credited against payments due under Obligation No. 28 or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture and in the Loan Agreement. Notwithstanding any such redemption or surrender of Bonds, as long as any Bond remains outstanding under the Indenture or any additional payments required to be made under Obligation No. 28 remain unpaid, the Corporation shall not be relieved of its obligations under the Master Indenture, including Supplement No. 28.

Prepayments made under Supplement No. 28 shall be credited against amounts to become due on Obligation No. 28 as described above, under the caption "Payments on Obligation No. 28; Credits" and as described in the Loan Agreement.

The Corporation may also prepay all of its indebtedness under Obligation No. 28 by providing for prepayment of the Bonds in accordance with the defeasance provisions of the Indenture.

Registration, Number, Negotiability and Transfer of Obligations

Except as described in the paragraph immediately following this paragraph, so long as any Bond remains outstanding, Obligation No. 28 shall consist of a single Obligation without coupons registered as to principal and interest in the name of the Trustee and no transfer of Obligation No. 28 shall be registered under the Master Indenture except for transfers to a successor Trustee.

Upon the principal of all Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 28 may be transferred if and to the extent the Trustee requests that the restrictions described in the preceding paragraph on transfers be terminated.

Right to Redeem

Obligation No. 28 shall be subject to redemption, in whole or in part, prior to the maturity at the times and in the amounts applicable to redemption of the Bonds as specified in the Indenture; provided that in no event shall any portion of Obligation No. 28 be redeemed unless a corresponding amount of Bonds is also redeemed.

THE INDENTURE

The Indenture sets forth the terms of the Bonds issued pursuant to the Indenture, the nature and extent of the security, various rights of the Bondholders, the rights, duties, and immunities of the Trustee and the rights and obligations of the Authority.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, there are pledged to secure the payment of the principal of and interest on the Bonds, in accordance with their terms and the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (excluding moneys on deposit in the Rebate Fund, Administrative Fees and Expenses and any amounts paid by the Corporation pursuant to the payment of expense and indemnification provisions of the Loan Agreement).

Pursuant to the provisions of the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged as described in the immediately preceding paragraph and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses and any other fees and expenses of the Authority to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, members, agents or employees to reimbursement or indemnification, (iii) the obligation of the Corporation to make deposits to the Rebate Fund pursuant to the Tax Agreement and (iv) any express rights of the Authority to receive notices and opinions, to give consents or approvals and to make inspections), and Obligation No. 28. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions of the Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority which have been assigned to the Trustee, all of the obligations of the Corporation under the Loan Agreement, other than for those items excluded pursuant to the provisions of the Indenture described in this paragraph, and all of the obligations of the Corporation and the other Members of the Obligated Group under Obligation No. 28. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Establishment of Funds and Accounts

The Indenture creates an Interest Fund, a Revenue Fund, a Principal Fund, including the Sinking Accounts to be established therein, a Rebate Fund, and a Redemption Fund, including the Optional Redemption Account and the Special Redemption Account to be established therein. All such funds and accounts shall be established, maintained and held in trust by the Trustee and applied in accordance with the provisions set forth in the Indenture.

Funding and Application of the Interest Fund. Moneys in the Interest Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Interest Fund when and as such Revenues are received: (1) the interest component of all Loan Repayments, including the interest component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement; (2) the interest component of all payments made pursuant to Obligation No. 28; (3) all interest, profits and other income received from the investment of moneys in the Interest Fund; and (4) any other Revenues not required to be deposited in any other fund or account established pursuant to the Indenture. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest

on the Bonds, as the same becomes due and payable (including accrued interest with respect to any Bonds, purchased or redeemed prior to maturity pursuant to the Indenture).

Funding and Application of the Principal Fund. Moneys in the Principal Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Principal Fund when and as such Revenues are received: (1) the principal component of all Loan Repayments, but excluding the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement, which shall be deposited in the Redemption Fund; (2) the principal component of all payments made pursuant to Obligation No. 28, but excluding the principal component of all cash prepayments of Loan Repayments made pursuant to Obligation No. 28, which shall be deposited in the Redemption Fund; and (3) all interest, profits and other income received from the investment of moneys in the Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as the same becomes due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase, redeem or pay on their stated maturity dates the maturity of Bonds to which such Sinking Account relates as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate Sinking Account for each maturity of each Series of Term Bonds. On each Mandatory Sinking Account Payment date, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture, provided that, at any time prior to giving notice of such redemption, the Trustee may apply moneys in such Sinking Account to the purchase of Term Bonds of the Series and maturity for which such Sinking Account was established at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par value of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Term Bonds of such Series and maturity with the Trustee (together with a Request of the Corporation to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date with respect to Term Bonds of such Series and maturity), or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the provisions of the Indenture described herein, if any, shall be cancelled and destroyed. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Principal Fund. Bonds purchased from a Sinking Account, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment for Term Bonds of such Series and maturity, then as a credit against such future Mandatory Sinking Account Payments for Term Bonds of such Series and maturity as the Corporation may specify.

Funding and Application of the Redemption Fund. Moneys in the Redemption Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. The Trustee shall deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in the provisions of the Indenture described in the following paragraph, the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement; (2) except as provided in the provisions of the Indenture described in the following paragraph, the principal component of all cash prepayments made pursuant to Obligation No. 28; and (3) all interest, profits and other income received from the investment of moneys in the Optional Redemption Account.

The Trustee shall deposit the following Revenues in the Special Redemption Account when and as such Revenues are received: (1) the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the health care facilities of the Corporation or

proceeds of a sale, lease or other disposition of all or a portion of the facilities refinanced by the proceeds of the Bonds; (2) the principal component of all cash prepayments made pursuant to Obligation No. 28 which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the health care facilities of the Corporation or proceeds of a sale, lease or other disposition of all or a portion of the facilities refinanced by the proceeds of the Bonds; and (3) all interest, profits and other income received from the investment of moneys in the Special Redemption Account.

All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to the selection of Bonds, for such redemption, the Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds, at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Corporation may direct in writing, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds, are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such Optional Redemption Account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or redeemed from the Redemption Fund shall be allocated to the Mandatory Sinking Account Payments specified by the Corporation in a Request of the Corporation delivered to the Trustee (or if the Corporation fails to deliver such Request, in inverse order of their payment dates).

Funding and Application of the Rebate Fund. The Trustee shall establish and maintain, when required, a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be necessary in order to comply with the Tax Agreement. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as described in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Corporation, nor the Holder of any Bonds, shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the provisions of the Indenture and by the Tax Agreement. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Corporation and shall have no liability or responsibility to enforce compliance by the Corporation or the Authority with the terms of the Tax Agreement.

Investment of Moneys in Funds and Accounts

Subject to the limitations set forth in the Indenture, all moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by the Trustee solely at the written direction of the Corporation and solely in Investment Securities. Investment Securities shall be purchased at such prices as the Corporation may direct. All Investment Securities shall be acquired subject to the limitations as to maturities and other matters as are set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. In the absence of any other written direction from the Corporation, the Trustee shall invest solely in Investment Securities specified in clause (6) of the definition thereof. Unless otherwise specifically provided in the Indenture, ratings and credit criteria specified with respect to any Investment Security shall refer to the ratings assigned and the credit of the issuing or guaranteeing organization at the time such Investment Security is acquired. Moneys in all other funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. Unless otherwise specifically provided herein, all interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture shall be deposited when received in such fund or account. Notwithstanding any other provision of the Indenture to

the contrary, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. Subject to the provisions of the Indenture, the Trustee may commingle any of the funds or accounts established pursuant to the Indenture (other than the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee or its affiliates may act as principal or agent in the making or disposing of any investment and may also act as sponsor, advisor or manager in connection with any investments. The Trustee may sell or present for prepayment or redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with provisions of the Indenture. The Trustee shall not be responsible for any tax, fee or other charge in connection with any investment, reinvestment or the liquidation thereof.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond, when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, including redemption from Mandatory Sinking Account Payments, by declaration of acceleration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond, when and as such interest installment shall become due and payable;

(c) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds, contained, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Trustee or to the Authority, the Corporation and the Trustee by the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; or

(d) a Loan Default Event.

Acceleration of Maturities. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written direction of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, the Trustee shall, notify the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 28 and may request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members of the Obligated Group declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Upon such declaration by the Master Trustee and upon notice in writing to the Authority and the Corporation, the Trustee shall declare the principal of the Bonds, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. In addition, the Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 28.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Indenture or in the Bonds to the contrary notwithstanding, interest shall cease to accrue on such Bonds from and after the date of such notice of acceleration.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be

deposited with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rates borne by the respective Bonds, and the reasonable fees, charges and expenses of the Trustee, and if the Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 28 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding, by written notice to the Authority, the Corporation and the Trustee, or the Trustee may, on behalf of the Holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon. In the case of any such rescission and annulment, the Authority, the Corporation, the Trustee and the Holders shall be restored to their former positions and rights under the Indenture.

Trustee to Represent Bondholders. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Indenture, the Loan Agreement, Obligation No. 28, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, Obligation No. 28, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%; (3) such Holder or said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement, Obligation No. 28, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; provided, however, that if such amendment will, by its terms, not take effect so long as Bonds of any particular Series and maturity remain Outstanding, the consent of the Holders of Bonds of such Series and maturity shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provisions of the Indenture described herein. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding.

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into without the consent of any Holders, but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(5) to make any changes required by a Rating Agency in order to maintain a rating for the Bonds;

(6) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

Defeasance

Discharge of Bonds and Indenture. The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(1) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(2) by depositing with the Trustee, in trust, at or before maturity, moneys in the necessary amount (as provided pursuant to the provisions of the Indenture) to pay when due or redeem all Bonds then Outstanding; or

(3) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Corporation shall have paid all Administrative Fees and Expenses and any other fees and expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture and upon receipt by the Trustee and the Authority of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied.

THE LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds, to the Corporation and the repayment of and security for the loan provided by the Corporation.

Issuance of Obligation No. 28

In consideration of the issuance of the Bonds by the Authority and the application of the proceeds thereof as provided in the Indenture, the Corporation agrees to issue, or cause to be issued, and to cause to be authenticated and delivered to the Authority or its designee, pursuant to the Master Indenture and Supplement No. 28, concurrently with the issuance and delivery of the Bonds, Obligation No. 28. The Authority agrees that Obligation No. 28 shall be registered in the name of the Trustee.

Payment of Loan

Loan Repayments. Pursuant to the Loan Agreement, the Authority lends and advances to the Corporation, and the Corporation borrows and accepts from the Authority, the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of the Loan Agreement and the Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees to pay, or cause to be paid, Loan Repayments as follows: (i) on or before the Business Day next preceding each Interest Payment Date, the full amount of the interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding (less any amounts on deposit in the Interest Fund available for the payment of such interest) and (ii) on or before the Business Day next preceding each Principal Payment Date, the aggregate amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into the Sinking Accounts for Outstanding Bonds, in each case on such Principal Payment Date (less any amounts on deposit in the Principal Fund available for the payment of such principal or Mandatory Sinking Account Payments). Notwithstanding the foregoing schedule of payments, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or redemption price of

and interest on the Bonds from time to time Outstanding under the Indenture and other amounts required to be paid under the Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable by the Corporation to the Authority under the Loan Agreement or with respect to Obligation No. 28 shall be paid to the Trustee, as assignee of the Authority, and the Loan Agreement and all right, title and interest of the Authority in any such payments shall be assigned and pledged to the Trustee so long as any Bonds remain Outstanding.

Additional Payments. In addition to Loan Repayments and payments on Obligation No. 28, the Corporation shall also pay to the Authority or the Trustee, as the case may be, Additional Payments, as follows:

(a) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(b) All reasonable fees, charges, expenses and indemnities of the Trustee for services rendered under the Loan Agreement and under the Indenture, as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, Supplement No. 28, Obligation No. 28 or the Indenture; and

(d) The annual fee of the Authority and reasonable fees and expenses of the Authority or any agent or counsel selected by the Authority to act on its behalf in connection with the Loan Agreement, the Master Indenture, Supplement No. 28, Obligation No. 28, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds in connection with any litigation which may at any time be instituted involving the Loan Agreement, the Master Indenture, Supplement No. 28, Obligation No. 28, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Indenture, Supplement No. 28 and Obligation No. 28.

Obligations Unconditional. The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 28, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 28, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 28, the Master Indenture or the Indenture. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation:

(a) Will pay all amounts required under the Loan Agreement and under Obligation No. 28 without abatement, deduction or set-off except as otherwise expressly provided in the Loan Agreement;

(b) Will not suspend or discontinue any payments due under the Loan Agreement or under Obligation No. 28 for any reason whatsoever, including, without limitation, any right of set-off or counterclaim;

(c) Will perform and observe all its other agreements contained in the Loan Agreement; and

(d) Except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the Corporation's facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State, or any political subdivision of either thereof or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement.

Continuing Disclosure

The Corporation, on behalf of itself and the other Members of the Obligated Group, covenants and agrees that it shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event; however, upon being indemnified to its satisfaction, the Trustee shall, at the request of any Participating Underwriter (as such term is defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of a Series of Bonds Outstanding, or any Holder or Beneficial Owner, as such term is defined in the Continuing Disclosure Agreement, may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with the obligations of the Corporation described under this caption.

Loan Default Events and Remedies

Loan Default Events. Each of the following events shall constitute a Loan Default Event under the Loan Agreement:

(a) Failure by the Corporation to pay in full any payment required under the Loan Agreement or under Obligation No. 28 when due;

(b) If any material representation or warranty made by the Corporation in the Loan Agreement or in any document, instrument or certificate furnished to the Trustee or the Authority in connection with the issuance of Obligation No. 28 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made;

(c) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in subsection (a) or (b) above, or shall breach any warranty by the Corporation contained in the Loan Agreement, for a period of 60 days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority or the Trustee; except that, if such failure or breach can be remedied but not within such 60 day period and if the Corporation shall have taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Authority, or the Trustee;

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities;

(e) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation's facilities, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control;

(g) Any Event of Default as defined in and under the Indenture; or

(h) Any Event of Default as defined in and under the Master Indenture.

Remedies on Default. If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Trustee on behalf of the Authority, subject to the limitations in the Indenture as to the enforcement of remedies and subject to the Trustee's rights and protections under the Indenture, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given by the Loan Agreement or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Corporation's performance under the Loan Agreement (including, without limitation, Obligation No. 28 and the Master Indenture);

(b) By written notice to the Corporation declare an amount equal to all amounts then due and payable on the Bonds, whether by acceleration of maturity or otherwise, to be immediately due and payable under the Loan Agreement, whereupon the same shall become immediately due and payable; and

(c) Take any action at law or in equity to collect the payment required under the Loan Agreement then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Trustee shall not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee if the Master Trustee shall have declared the aggregate principal amount of Obligation No. 28 and all interest thereon immediately due and payable in accordance with the provisions of the Master Indenture.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

California Health Facilities Financing Authority
Sacramento, California

California Health Facilities Financing Authority
Refunding Revenue Bonds (Stanford Hospital and Clinics), 2010 Series A and 2010 Series B
Final Opinion

Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Issuer") in connection with issuance of $296,055,000 aggregate principal amount of California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2010 Series A and 2010 Series B (the "Bonds"), issued pursuant to an Indenture, dated as of June 1, 2010 (the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Issuer and the Corporation, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Issuer and the Corporation, opinions of counsel to the Issuer, the Corporation and the Trustee, certificates of the Issuer, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities refinanced with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have

assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against authorities of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.

4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY SYSTEM

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority (the "Authority") as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. a consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on the payment 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 Participants and not of DTC, nor of its nominee, 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, premium, redemption proceeds, distributions and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and Stanford Hospital and Clinics (the "Corporation") believe to be reliable, but neither the Authority nor the Corporation takes responsibility for the accuracy thereof.

The Authority and the Corporation cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Corporation is responsible or liable for the failure of DTC or any Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

None of the Authority, Corporation or the Bond Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Participant, or any Indirect Participant; (ii) the payment by DTC or any Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Bonds; (iii) any notice that is permitted or required to be given to Holders under the Bond Indenture; (iv) the selection by DTC, any Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Participants or Indirect Participants under the book-entry system.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), is executed and delivered by Stanford Hospital and Clinics, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and The Bank of New York Mellon Trust Company, N.A. ("BNY"), a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee") and as dissemination agent (the "Dissemination Agent"), in connection with the issuance of $149,345,000 in aggregate principal amount of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2010 Series A (the "2010 Series A Bonds") and $146,710,000 in aggregate principal amount of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2010 Series B (the "2010 Series B Bonds," and, together with the 2010 Series A Bonds, hereinafter collectively referred to as the "Bonds"), which are being issued pursuant to an Indenture, dated as of June 1, 2010 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and the Trustee. The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of June 1, 2010 (the "Loan Agreement"), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement relating to the above-referenced Bonds are secured by Stanford Hospital and Clinics Obligation No. 28, issued by the Corporation pursuant to Supplemental Master Indenture for Obligation No. 28, dated as of June 1, 2010 ("Supplement No. 28"), between the Corporation and BNY, as master trustee (the "Master Trustee"). Supplement No. 28 supplements and amends the Master Indenture of Trust, dated as of December 1, 1990, between the Corporation, formerly known as Stanford University Hospital, and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to BNY, formerly known as The Bank of New York Trust Company, N.A. The Master Indenture of Trust, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by Supplement No. 28, is hereinafter referred to as the Master Indenture.

Pursuant to Section 6.11 of the Indenture and Section 5.10 of the Loan Agreement, the Corporation, acting on its own behalf and on behalf each other Person who becomes a Member of the Obligated Group (as such terms are defined in the Master Indenture), the Trustee and the Dissemination Agent covenant and agree as follows:

SECTION 1. **Purpose of this Disclosure Agreement**. This Disclosure Agreement is being executed and delivered by the Corporation, the Trustee and the Dissemination Agent for the benefit of the Holders and Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Corporation, the Trustee and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to any such reports, notices or disclosures or with respect to the Rule.

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

Annual Report shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Agreement.

Beneficial Owner shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Disclosure Representative shall mean the Authorized Representative of the Corporation or his or her designee, or such other person as the Authorized Representative of the Corporation shall designate in writing to the Trustee and the Dissemination Agent from time to time.

Dissemination Agent shall mean The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Trustee a written acceptance of such designation.

Listed Events shall mean any of the events listed in Section 5(A) of this Disclosure Agreement.

Participating Underwriter shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Quarterly Report shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

Repository shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

Rule shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SEC shall mean the Securities and Exchange Commission or any successor agency thereto.

Series when used with respect to Bonds, shall mean all the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Bonds thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Bonds as provided in the Indenture.

State shall mean the State of California.

SECTION 3. **Provision of Annual Reports and Quarterly Reports**. (A) The Corporation shall, or shall upon written direction cause the Dissemination Agent to, not later than one hundred fifty (150) days after the end of the fiscal year of the Obligated Group, commencing with the Annual Report for the fiscal year of the Obligated Group ending August 31, 2010, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Corporation shall also provide each Annual Report to any Beneficial Owner of at least $1,000,000 aggregate principal amount of a Series of Bonds which shall submit a written request to the Corporation. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the fiscal

year of the Obligated Group changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(F).

(B) Not later than five (5) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repository, the Corporation shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by five (5) Business Days prior to such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Corporation and the Dissemination Agent to determine if the Corporation is in compliance with subsection (A).

(C) If the Trustee is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (A), the Trustee shall send a notice, in electronic format, to the Repository, such notice to be in substantially the form attached as Exhibit A hereto.

(D) Unless the Corporation shall have informed the Dissemination Agent in writing that the Corporation has provided the Annual Report directly to the Repository, in which case the Corporation shall file a report with the Authority, the Dissemination Agent and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided, the Dissemination Agent shall file a report with the Corporation, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

(E) In addition to providing the Annual Report required to be filed pursuant to subsection (A), the Corporation shall provide (i) to any Beneficial Owner of at least $1,000,000 aggregate principal amount of a Series of Bonds which shall submit a written request to the Corporation, and (ii) to the Repository, unaudited financial information on a quarterly basis, such unaudited financial information to be provided for the first fiscal quarter, the second fiscal quarter, and the third fiscal quarter and to consist of a consolidated balance sheet, a consolidated statement of operations and changes in net assets and a consolidated statement of cash flows of the Obligated Group and such subsidiaries as are required to be included in accordance with generally accepted accounting principles and an update (as of the last day of the most recently ended fiscal quarter) of the information contained in Table 7 entitled "Historical Utilization" set forth in Appendix A of the Official Statement, dated June 4, 2010, relating to the Bonds (the "Official Statement"), under the caption "Services, Facilities, and Operations-Utilization" (such unaudited financial information and such update being hereinafter referred to as a "Quarterly Report"). Commencing with the Quarterly Report for the fiscal quarter of the Obligated Group ending November 30, 2010, the Corporation shall provide a Quarterly Report, consistent with this subsection (E), not later than sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of the Members of the Obligated Group. Each Quarterly Report shall be provided by the Corporation to any Beneficial Owner who shall have filed a written request with the Corporation in accordance with the requirements set forth herein and shall also be provided by the Corporation to the Repository, the Trustee (if the Trustee is not the Dissemination Agent) and the Dissemination Agent.

SECTION 4. **Content of Annual Reports**. The Annual Report of the Obligated Group shall contain or include by reference the following:

(A) The audited financial statements of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable in the United States as promulgated from time to time. If the Obligated Group's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in

the Official Statement and the audited financial statements shall be filed in the same manner as the Annual Report when such audited financial statements become available.

(B) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information set forth in the front portion of the Official Statement under the caption "Debt Service Requirements."

(C) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information contained in each of the following tables set forth in Appendix A of the Official Statement: (i) Table 7 entitled "Historical Utilization" set forth under the caption "Services, Facilities, and Operations-Utilization;" (ii) Table 9 entitled "Consolidated Capitalization" set forth under the caption "Summary of Financial Information-Capitalization;" (iii) Table 10 entitled "Consolidated Liquidity" set forth under the caption "Summary of Financial Information-Liquidity;" and (iv) Table 11 entitled "Consolidated Debt Service Coverage" set forth under the caption "Summary of Financial Information-Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation or any other Member of the Obligated Group is an "obligated person" (as such term is defined in the Rule), which have been submitted to the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the Repository. The Corporation shall clearly identify each such other document so included by reference.

SECTION 5. **Reporting of Significant Events**.

(A) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Modifications to the rights of Holders;
4. Optional, contingent or unscheduled Bond calls;
5. Defeasances;
6. Rating changes;
7. Adverse tax opinions or events adversely affecting the tax-exempt status of interest on the Bonds;
8. Unscheduled draws on debt service reserves reflecting financial difficulties;
9. Unscheduled draws on the credit enhancements reflecting financial difficulties;
10. Substitution of the credit or liquidity providers or any failure by such credit or liquidity providers to perform; and
11. Release, substitution or sale of property securing repayment of the Bonds.

(B) The Trustee shall, within one (1) Business Day, or as soon thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly direct the Dissemination Agent in writing whether or not to report such event pursuant to subsection (F).

For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the Principal Corporate Trust Office with regular responsibility for the administration of matters related to the Indenture. The Trustee shall not have any duty to determine if any Listed Event is material.

(C) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (B) or otherwise, the Corporation shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

(E) If in response to a request under subsection (B), the Corporation determines that the Listed Event would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (F).

(F) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository, with a copy to the Corporation and the Authority. Notwithstanding the foregoing, notice of Listed Events described in subsections (A)(4) and (A)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

SECTION 6. **Termination of Reporting Obligation**. The obligations of the Corporation, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity date of the Bonds, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(F). If the obligations of the Corporation under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation, and the original Corporation shall have no further responsibility hereunder.

SECTION 7. **Dissemination Agent**. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) day written notice to the Corporation and the Trustee. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to the Dissemination Agent or Trustee hereunder and shall not be deemed to be acting in any fiduciary capacity under this Disclosure Agreement for the Corporation, any other Member of the Obligated Group or the Holders. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the Repository shall be prepared and provided to the Dissemination Agent by the Corporation. The Dissemination Agent has undertaken no responsibility with respect to any reports, notices or disclosures provided to it under this Disclosure Agreement, and has no liability to any person, including any Holder of Bonds, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Corporation shall not be construed to

mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the Corporation.

SECTION 8. **Amendment; Waiver**. Notwithstanding any other provision of this Disclosure Agreement, the Corporation, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Corporation, provided, neither the Trustee or the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to the provisions of Sections 3(A), 4, or 5(A), such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(F), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. **Additional Information**. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. **Default**. In the event of a failure of the Corporation or the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the

written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of a Series of Bonds Outstanding, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or a Loan Default Event, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. **Duties, Immunities and Liabilities of Trustee and Dissemination Agent**. Article VIII of the Indenture, including, without limitation, Section 8.03 of the Indenture, is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and the Dissemination Agent shall be entitled to the benefits afforded to the Trustee thereunder. The Dissemination Agent and the Trustee acting in its capacity as Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which the Trustee or the Dissemination Agent may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Corporation under this Section shall survive resignation or removal of the Trustee or the Dissemination Agent and payment of the Bonds.

SECTION 12. **Beneficiaries**. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters, the Holders and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement.

SECTION 13. **Notices**. All notices or communications herein required or permitted to be given shall be in writing mailed, sent by telecopy or other direct written electronic means, receipt of which shall be confirmed, or delivered as follows:

(i) If to the Corporation:

Stanford Hospital and Clinics
300 Pasteur Drive
M/C 5554
Stanford, California 94305
Attention: Chief Financial Officer
Telephone: (650) 723-3299
Telecopy: (650) 723-7457

(ii) If to the Trustee or the Dissemination Agent:

The Bank of New York Mellon Trust Company, N.A.
700 S. Flower Street, Suite 500
Los Angeles, California 90017
Attention: Corporate Trust Services
Telephone: (213) 630-6236
Telecopy: (213) 630-6215

(iii) If to the Authority:

California Health Facilities Financing Authority
915 Capitol Mall, Room 590
Sacramento, California 95814
Attention: Executive Director
Telephone: (916) 653-2799
Telecopy: (916) 654-5362

The Corporation, the Trustee, the Dissemination Agent and the Authority may, by written notice hereunder, designate any further or different address to which subsequent notices, certificates or other communications shall be sent.

SECTION 14. **Identifying Information and Format for Documentation to be Provided to Repository**. All documents or notices provided to the Repository pursuant to this Disclosure Agreement shall be in electronic format and shall be accompanied by such identifying information as is prescribed by the Repository.

SECTION 15. **Governing Law**. This Disclosure Agreement shall be construed in accordance with and governed by the Constitution and laws of the State of California applicable to contracts made and performed in the State of California.

SECTION 16. **Counterparts**. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Stanford Hospital and Clinics

By: _____
Chief Financial Officer

The Bank of New York Mellon Trust Company, N.A., as Trustee and Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	California Health Facilities Financing Authority (the "Authority")
Name of Issue:	California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2010 Series A and 2010 Series B
Name of Corporation:	Stanford Hospital and Clinics (the "Corporation")
Date of Issuance of Bonds:	June 16, 2010

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.11 of the Indenture, dated as of June 1, 2010, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee, and as required by Section 5.10 of the Loan Agreement, dated as of June 1, 2010, between the Authority and the Corporation. [The Corporation anticipates that the Annual Report will be filed by _____.]

Dated:_____

The Bank of New York Mellon Trust Company, N.A.,
as trustee on behalf of Stanford Hospital and Clinics

cc: Authority
Corporation

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APPENDIX G

FORM OF AMENDED AND RESTATED MASTER INDENTURE OF TRUST

Amended and Restated Master Indenture of Trust

Between

Stanford Hospital and Clinics

and

The Bank of New York Mellon Trust Company, N.A.,
as Master Trustee

Amending and Restating
Master Indenture of Trust dated as of December 1, 1990

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Amended and Restated Master Indenture of Trust

This **Amended and Restated Master Indenture of Trust**, dated as of _____ ___, _____, between **Stanford Hospital and Clinics,** a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and **The Bank of New York Mellon Trust Company, N.A.,** a national banking association duly organized and existing under the laws of the United States of America and being qualified to accept and administer the trusts hereby created, as master trustee, amends and restates the Master Indenture of Trust, dated as of December 1, 1990 (as supplemented and amended to the date hereof, the "Existing Master Indenture"), between the Corporation and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company predecessor master trustee to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as master trustee;

W I T N E S S E T H:

WHEREAS, in order to provide for the issuance from time to time of obligations to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes, the Corporation entered into the Existing Master Indenture;

WHEREAS, in accordance with Section 6.02 of the Existing Master Indenture, the holders of not less than a majority in aggregate principal amount of obligations outstanding shall have the right to consent to and approve the execution by the Corporation, acting as obligated group representative (the Corporation acting in such capacity being hereinafter referred to as the "Obligated Group Representative") of such Related Supplements (as such term is defined in the Existing Master Indenture) 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 Existing Master Indenture, subject to such exceptions as are set forth in Section 6.02 of the Existing Master Indenture;

WHEREAS, in order to provide for changes to reflect current market standards, the Corporation, acting as Obligated Group Representative, has caused this Amended and Restated Master Indenture of Trust to be prepared;

WHEREAS, this Amended and Restated Master Indenture of Trust amends and restates the Existing Master Indenture in its entirety;

WHEREAS, this Amended and Restated Master Indenture of Trust constitutes a Related Supplement as such term is defined in the Existing Master Indenture;

WHEREAS, as required pursuant to Section 6.02 of the Existing Master Indenture, the Corporation has secured the consent of the holders of not less than a majority in aggregate principal amount of obligations outstanding to amendment and restatement of the Existing Master Indenture as set forth in this Amended and Restated Master Indenture of Trust;

WHEREAS, the Corporation hereby certifies that: (i) all acts and things necessary to constitute this Amended and Restated Master Indenture of Trust a valid indenture and agreement according to its terms having been done and performed; (ii) the Corporation has duly authorized the execution and delivery of this Amended and Restated Master Indenture of Trust; and (iii) the Corporation proposes to enter into supplements hereto with The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee") to provide for the issuance from time to time of obligations to be secured

hereunder to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes; and

WHEREAS, the Master Trustee agrees to accept and administer the trusts created hereby;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of the obligations issued under the Existing Master Indenture, as amended and restated by this Amended and Restated Master Indenture of Trust, by the holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which obligations are to be issued, authenticated, delivered and accepted by all persons who shall from time to time be or become holders thereof, the Corporation covenants and agrees with the Master Trustee for the equal and proportionate benefit of the respective holders from time to time of obligations issued under the Existing Master Indenture, as amended and restated by this Amended and Restated Master Indenture of Trust, as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Amended and Restated Master Indenture of Trust (as more fully defined in Section 1.01 hereof, this "Master Indenture") and of any Related Supplement issued hereafter and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, equally applicable to both singular and plural forms of any of the terms herein defined.

Accountant means any independent certified public accountant or firm of independent certified public accountants selected by the Obligated Group Representative.

Account Control Agreement means an agreement providing for control of deposit accounts within the meaning of Division 9 of the California Commercial Code, including Section 9104 of the California Commercial Code, entered into by one or more Members of the Obligated Group, the Master Trustee and a Depository Bank**.**

Affiliated Corporation means any corporation which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, an Obligated Group Member.

Annual Debt Service means for each Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Obligated Group then Outstanding (by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price coming due as a result of a mandatory or optional tender or put), less any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal or interest; provided that if a Financial Products Agreement is being entered into by any Obligated Group Member concurrently or substantially concurrently with the incurrence of Long-Term Indebtedness and with respect to such Long-Term Indebtedness or if a Financial Products Agreement has been entered into by any Obligated Group Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under a Financial Products Agreement payable in such Fiscal Year

minus any Financial Product Receipts under a Financial Products Agreement receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service. For purposes of computing Annual Debt Service, the principles and assumptions set forth under the definition of Maximum Annual Debt Service shall be applied.

Appraisal Institute means the global membership association of professional real estate appraisers designated by that name or any successor thereto.

Authorized Representative means with respect to each Obligated Group Member, the chair of its Governing Body, its president or chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of such Obligated Group Member by a Certificate of that Obligated Group Member signed by the chair of its Governing Body, its president or chief executive officer, or its chief financial officer and filed with the Master Trustee.

Balloon Indebtedness means either (a) Long-Term Indebtedness or (b) Commercial Paper Indebtedness or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity so that such Commercial Paper Indebtedness or Short-Term Indebtedness, as applicable, and the Indebtedness intended to be used to refinance such Commercial Paper Indebtedness or Short-Term Indebtedness, as applicable, will be scheduled to be outstanding for a total of more than three hundred sixty-five (365) days as certified in an Officer's Certificate, in either case twenty-five percent (25%) or more of the original principal of which matures (or is redeemable at the option of the holder) in the same Fiscal Year, if such twenty-five percent (25%) or more is not to be amortized below twenty-five percent (25%) by mandatory redemption prior to such Fiscal Year.

Book Value means, when used in connection with Property, Plant and Equipment or other Property of any Obligated Group Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Obligated Group Member and in conformity with GAAP, 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 of each Obligated Group Member determined in such a way that no portion of such value of Property of any Obligated Group Member is included more than once.

Certificate, **Statement**, **Request**, **Consent** or **Order** of any Obligated Group Member or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Obligated Group Member by an Authorized Representative or in the name of the Master Trustee by a Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.04 hereof, each such instrument shall include the statements provided for in Section 1.04.

Collateral means all of the following whether now existing or hereafter created or acquired (a) all Gross Revenues, (b) all accounts comprising the Gross Revenue Fund, (c) all accounts and accounts receivable, including health-care-insurance receivables and (d) all proceeds of any of the foregoing. The terms "accounts" and "health-care-insurance receivables" are used herein with meanings as defined in the California Commercial Code Division 9. Notwithstanding the foregoing, "Collateral" shall not include Restricted Assets.

Completion Indebtedness means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions hereof, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared in connection with the related financing as certified by an Officer's Certificate.

Commercial Paper Indebtedness means Indebtedness with a maturity not in excess of two hundred seventy (270) days), the proceeds of which are to be used: (i) to provide interim financing for capital improvements, (ii) to support current operations or (iii) for other corporate purposes. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under this Master Indenture.

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 at 700 South Flower Street, Suite 500, Los Angeles, California 90017, or at such other or additional offices as shall be specified by the Master Trustee in a writing delivered to the Obligated Group Representative.

Corporation means Stanford Hospital and Clinics, a nonprofit corporation duly organized and existing under the laws of the State of California, and its successors.

Debt Service Coverage Ratio means, for any Fiscal Year, the ratio determined by dividing Income Available for Debt Service for such Fiscal Year by Maximum Annual Debt Service.

Default means an event that, with the passage of time or the giving of notice or both, would become an Event of Default.

Depository Bank means a financial institution which has entered into an Account Control Agreement with one or more Obligated Group Members and the Master Trustee.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

Event of Default means any of the events specified in Section 4.01 hereof.

Excluded Property means the property described on Exhibit D hereto.

Existing Financial Products Agreements means the Financial Products Agreements listed on Exhibit A attached hereto.

Existing Master Indenture shall have the meaning assigned thereto in the recitals hereof.

Existing Parity Financial Product Extraordinary Payments means the Parity Financial Product Extraordinary Payments listed on Exhibit C attached hereto.

Existing Obligations means the Obligations listed on Exhibit B attached hereto.

Fair Market Value, when used in connection with Property, means the fair market value of such Property as determined by either:

(1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a member of the Appraisal Institute and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee;

(2) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or

(3) an officer of the Obligated Group Representative (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Master Trustee) if the fair market value of such Property is less than or equal to the greater of $5,000,000 or 2.5% of cash and equivalents as shown on the most recent Financial Statements.

Financial Products Agreement means any interest rate exchange agreement, hedge or similar arrangement, including, without limitation, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis, identified to the Master Trustee in an Officer's Certificate of the Obligated Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider: (a) with respect to Indebtedness (which is either then-Outstanding or to be incurred after the date of such Certificate) identified in such Certificate for the purpose of (1) reducing or otherwise managing the Obligated Group Member's risk of interest rate changes or (2) effectively converting the Obligated Group Member's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure; or (b) for any other interest rate, investment, asset or liability management purpose.

Financial Product Extraordinary Payments means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated Group Member under a Financial Product Agreement, which payments are not Financial Product Payments.

Financial Product Extraordinary Receipts means any payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to an Obligated Group Member by a counterparty under a Financial Product Agreement, which payments are not Financial Product Receipts.

Financial Product Payments means regularly scheduled payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Products Agreement.

Financial Product Receipts means regularly scheduled payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Products Agreement.

Financial Statements means financial statements complying with the provisions set forth in Section 3.11(b)(1).

Fiscal Year means the period beginning on September 1 of each year and ending on the next succeeding August 31, or any other twelve-month period hereafter designated by the Obligated Group Representative as the fiscal year of the Obligated Group.

GAAP means accounting principles generally accepted in the United States of America, consistently applied.

Governing Body means, when used with respect to any Obligated Group Member, its board of directors, board of trustees or other board or group of individuals in which all of the powers of such Obligated Group Member are vested, except for those powers reserved to the corporate membership of such Obligated Group Member by the articles of incorporation or bylaws of such Obligated Group Member.

Government Issuer means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds hereunder.

Government Obligations means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest rating categories of a Rating Agency (without regard to any gradation of such rating category); (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

Gross Revenues means all revenues, income, receipts and money now existing or hereafter received by each Obligated Group Member, including: (a) gross revenues collected from its operations and possession of and pertaining to its properties; (b) gifts, grants, bequests, donations and contributions; (c) proceeds derived from (i) condemnation, (ii) insurance, (iii) accounts and accounts receivable, including health-care-insurance receivables, (iv) payment intangibles, (v) inventory and other tangible and intangible property, (vi) medical reimbursement programs and agreements, (vii) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member; and (d) rentals received from the lease of real estate. The terms "accounts," "health-care-insurance receivables," "payment intangibles," and "inventory" as used herein shall the meanings ascribed to such terms in the California Commercial Code Divisions 8 and 9. Notwithstanding the foregoing, "Gross Revenues" shall not include Restricted Assets**.**

Gross Revenue Fund means the fund by that name established pursuant to Section 3.06 of this Master Indenture.

Guaranty means all loan commitments and all obligations of any Obligated Group Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person, which would, if such other Person were an Obligated Group Member, constitute Indebtedness.

Holder means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

Immaterial Affiliates means Persons that are not Members of the Obligated Group and whose combined total revenues (calculated as if such Persons were Members of the Obligated Group), as shown on their financial statements for their most recently completed fiscal year, were less than ten percent (10%) of the Total Revenues of the Obligated Group (including the Total Revenues of such Persons) as shown on the Financial Statements for the most recently completed Fiscal Year of the Obligated Group.

Income Available for Debt Service means, unless the context provides otherwise, as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense, as determined in accordance with GAAP and as shown on the Financial Statements; provided, that no determination thereof shall take into account:

(a) any revenue or expense of a Person which is not a Member of the Obligated Group;

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;

(c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;

(d) any gain or loss resulting from the extinguishment of Indebtedness;

(e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;

(f) any gain or loss resulting from any discontinued operations;

(g) any gain or loss resulting from pension terminations, settlements or curtailments;

(h) any unusual charges for employee severance;

(i) adjustments to the value of assets or liabilities resulting from changes in GAAP;

(j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value;

(k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, including, without limitation, any Financial Products Agreement;

(l) any Financial Product Extraordinary Payments, Financial Product Extraordinary Receipts, or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Products Agreement;

(m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets;

(n) changes in the share value of investment pools held or managed by Stanford University; or

(o) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

Indebtedness means any Guaranty (other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) and any obligation of any Obligated Group Member (1) for repayment of borrowed money, (2) with respect to finance leases or (3) under installment sale agreements; provided, however, that if more than one Obligated Group Member shall have incurred or assumed a Guaranty of a Person other than an Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under this Master Indenture, such Guaranty or obligation shall be included only one time. Financial Products Agreements and physician income guaranties shall not constitute Indebtedness.

Independent Consultant means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such firm is retained), (3) is not connected with any Obligated Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (4) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Obligated Group or facilities of the type or types operated by the Obligated Group and having the skill and experience necessary to render the particular opinion or report required by the provision hereof in which such requirement appears.

Industry Restrictions means federal, state or other applicable governmental laws or regulations, including conditions imposed specifically on the Obligated Group Members or the Obligated Group Members' facilities, or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Obligated Group Members.

Insurance Consultant means a Person or firm (which may be an insurance broker or agent of an Obligated Group Member) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such Person or firm is retained) and (3) is not connected with any Obligated Group Member as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions, and designated by the Obligated Group Representative, qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

Irrevocable Deposit means an irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be in an amount sufficient to pay all or a portion of the principal of, premium, if any, and interest on, any such

Indebtedness (which would otherwise be considered Outstanding) as the same shall become due. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

Lease means that certain Restatement and Assignment of Lease (Hospital and Hoover Pavilion), dated November 1, 1997, as amended by Amendment of Lease, dated March 31, 2000, among Stanford University, as lessor, the Corporation, as lessee, and UCSF Stanford Health Care, as assignee, which amended and restated that certain Lease and License Agreement, dated as of April 20, 1984, between Stanford University, as lessor, and the Corporation, as lessee.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, including Gross Revenues, of an Obligated Group Member (i) which secures any Indebtedness or any other obligation of such Obligated Group Member or (ii) which secures any obligation of any Person other than an Obligated Group Member, and excluding liens applicable to Property in which an Obligated Group Member has only a leasehold interest, unless the lien secures Indebtedness of that Obligated Group Member.

Long-Term Indebtedness means Indebtedness other than Short-Term Indebtedness.

Master Indenture means this Amended and Restated Master Indenture of Trust, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms hereof.

Master Trustee means The Bank of New York Mellon Trust Company, N.A., a national banking association organized under the laws of the United States of America, and, subject to the limitations contained in Section 5.07, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created hereunder.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however that for the purposes of computing Maximum Annual Debt Service:

(a) with respect to a Guaranty, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were a Obligated Group Member) guaranteed by the Obligated Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Obligated Group Member (calculated as if such Person were a Obligated Group Member), over the Maximum Annual Debt Service of such Person (calculated as if such Person were a Obligated Group Member) (such ratio being hereinafter referred to as the "Ratio"). If the Ratio is greater than 2.00, no Annual Debt Service on the indebtedness guaranteed shall be included in the calculation of Annual Debt Service. If the Ratio is equal to or less than 2.0, twenty percent (20%) of Annual Debt Service on the indebtedness guaranteed shall be included in the calculation of Annual Debt Service; provided however, that if the indebtedness guaranteed shall be in default, one hundred percent (100%) of such indebtedness shall be included in the calculation of Annual Debt Service until such time as either the default is cured, the indebtedness guaranteed is repaid or the Guaranty is terminated.

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments or Financial Product Receipts are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for

such Financial Product Payments or Financial Product Receipts) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Financial Products Agreement) was Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect for such period, and (ii) if such Long-Term Indebtedness (or Financial Products Agreement) was not Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, at the election of the Obligated Group Representative, either (x) an average of the SIFMA Swap Index during the twelve (12) calendar months immediately preceding the date of calculation or (y) an average of the interest rates per annum which would have been in effect for any twelve (12) consecutive calendar months during the eighteen (18) calendar months immediately preceding the date of calculation, as specified in a Certificate of the Obligated Group Representative or, at the sole option of the Obligated Group Representative, such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative.

(c) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then-current Fiscal Year from sources other than proceeds of such Long-Term Indebtedness held by a trustee or escrow agent for such purpose (excluding any funds held on deposit in a debt service reserve fund established in connection with such Long-Term Indebtedness);

(d) with respect to Balloon Indebtedness, such Balloon Indebtedness shall be treated, at the sole option of the Obligated Group Representative, as Long-Term Indebtedness bearing interest at an interest rate equal to either (i) a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in *The Bond Buyer* prior to the date of calculation or (ii) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative, and (x) with substantially level debt service over a period of up to thirty (30) years (which period shall be designated by the Obligated Group Representative) from the date of calculation, or (y) with the debt service being interest only for a designated period of years and then substantially level debt service over a designated period of years (each of which periods shall be designated by the Obligated Group Representative), provided that such periods shall not aggregate in excess of thirty (30) years (by way of example, Annual Debt Service on Balloon Indebtedness could be designated by the Obligated Group Representative to be treated as interest only for twenty-five (25) years and as level payments of principal and interest for the next five (5) years); and

(e) debt service on Commercial Paper Indebtedness shall be treated in the same manner as interest on Long-Term Indebtedness payable pursuant to a variable interest rate formula as provided in clause (b) above.

Member means an Obligated Group Member.

Merger Transaction has the meaning set forth in Section 3.10.

Nonrecourse Indebtedness means any Indebtedness which is not a general obligation and which is secured by a Lien on Property, Plant and Equipment acquired or constructed with the proceeds of such Indebtedness, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien, with no recourse, directly or indirectly, to any other Property of any Obligated Group Member or to any Obligated Group Member.

Obligated Group means all Obligated Group Members.

Obligated Group Member means the Corporation and each other Person which is obligated hereunder to the extent and in accordance with the provisions of Sections 3.05 and 3.12 hereof, from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of Section 3.13 hereof, from and after the date of such withdrawal.

Obligated Group Representative means the Corporation or such other Obligated Group Member (or Obligated Group Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by the Corporation.

Obligation means each of the Existing Obligations and any obligation of the Obligated Group issued pursuant to Section 2.02 hereunder, as a joint and several obligation of each Obligated Group Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Products Agreements or leases. Reference to a Series of Obligations or to Obligations of a Series means Obligations or a Series of Obligations issued pursuant to a single Related Supplement.

Officer's Certificate means a certificate signed by an Authorized Representative of the Obligated Group Representative.

Opinion of Bond Counsel means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

Opinion of Counsel means a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Obligated Group Representative.

Outstanding, when used with reference to Indebtedness or Obligations, means, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms hereof, including, without limitation, Obligations securing Related Bonds which have been defeased pursuant to their terms, (2) Obligations in lieu of which other Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related 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, (3) any Obligation held by any Obligated Group Member, (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof, and (5) Indebtedness for which there has been an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of calculating compliance with the various financial covenants contained herein, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

Parity Financial Product Extraordinary Payments means Existing Parity Financial Product Extraordinary Payments and Financial Product Extraordinary Payments that: (i) are with respect to a Financial Products Agreement secured or evidenced by an Obligation; and (ii) have been specified to be

payable on a parity with Financial Product Payments in the Related Supplement authorizing the issuance of such Obligation.

Permitted Liens means and includes:

(a) Any judgment lien or notice of pending action against any Obligated Group Member so long as the judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) 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, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, 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 the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days or for which a bond has been furnished; (iii) easements, rights-of-way, servitudes, restrictions 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; and (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof;

(c) Any Lien in favor of the Master Trustee securing all Outstanding Obligations equally and ratably;

(d) Liens arising by reason of good faith deposits with any Obligated Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Group Member 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;

(e) 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 as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Group Member 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 similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

(f) Any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;

(g) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(h) Liens on moneys deposited by patients or others with any Obligated Group Member as security for or as prepayment for the cost of patient care;

(i) Liens on Property received by any Obligated Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;

(j) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Member of the Obligated Group under federal or State of California statutes;

(k) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that the aggregate principal amount of such new Indebtedness does not exceed the aggregate principal amount of such refinanced Indebtedness;

(l) Liens granted by an Obligated Group Member to another Obligated Group Member;

(m) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions hereof;

(n) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;

(o) Liens on the Obligated Group Members' accounts receivable, provided that at the time of creation of such Lien, the Indebtedness secured by any such Lien shall not exceed thirty percent (30%) of the Obligated Group Members' net accounts receivable as shown on the most recent Financial Statements available at the time of incurrence of the Indebtedness to be secured by such Lien, and provided further that no more than thirty percent (30%) of the Obligated Group Members' net accounts receivable can be utilized for such securitization;

(p) Liens on revenues constituting rentals in connection with any other Lien permitted hereunder on the Property from which such rentals are derived;

(q) The lease or license of the use of a part of an Obligated Group Member's facilities for use in performing professional or other services necessary for the proper and economical operation of such facilities in accordance with customary business practices in the industry;

(r) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Obligated Group Member;

(s) Liens on real property constituting Property not necessary for the delivery of patient care by any Obligated Group Member;

(t) Liens securing the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title agreement;

(u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Obligated Group Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;

(v) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Obligated Group Member so long as the lease arrangement is in the ordinary course of business of such Obligated Group Member;

(w) Deposits of Property by any Obligated Group Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;

(x) Deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease (other than a lease that is treated as Indebtedness under GAAP), and other similar obligations incurred in the ordinary course of business of an Obligated Group Member;

(y) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of an Obligated Group Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(z) Present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Obligated Group Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used;

(aa) Liens junior to Liens in favor of the Master Trustee;

(bb) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Obligated Group Member under a Financial Products Agreement;

(cc) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease; and

(dd) Any other Lien on Property, provided that at the time of creation of such Lien the Value of all Property encumbered by all Liens permitted as described in this clause (dd) does not exceed twenty-five percent (25%) of the total Value of all Property of the Obligated Group Members as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year available at the time of creation of such Lien.

Person means an individual, association, corporation, firm, limited liability company, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Property means any and all rights, titles and interests in and to any and all assets of any Obligated Group Member, whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of any Obligated Group Member which is considered property, plant and equipment of such Obligated Group Member under GAAP.

Qualified Provider means any financial institution or insurance company or corporation which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary) are rated in one of the three highest rating categories of a Rating Agency (without regard to any gradation or such rating category) at the time of the execution and delivery of the Financial Products Agreement.

Rating Agency means Fitch Inc., Moody's Investors Service, Inc., Standard & Poor's, a division of The McGraw-Hill Companies, and any other national rating agency then rating Obligations or Related Bonds.

Rating Category means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Related Bonds means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to an Obligated Group Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

Related Bond Indenture means any indenture, bond resolution, trust agreement, or other comparable instrument pursuant to which a series of Related Bonds are issued.

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

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

Required Payment means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, Financial Product Payments, Financial Product Extraordinary Payments, required to be made by any Obligated Group Member under this Master Indenture, any Related Supplement or any Obligation.

Responsible Officer means, with respect to the Master Trustee, the president, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any senior associate, any associate or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject.

Restricted Assets means any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or the payment of operating expenses.

Short-Term Indebtedness means all (i) Indebtedness having an original maturity less than or equal to one year and not renewable at the option of an Obligated Group Member for a term greater than one year from the date of original incurrence or issuance or (ii) Indebtedness with a maturity or renewable

at the option of a Obligated Group Member with a term greater than one year, if by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness hereunder and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under this Master Indenture.

SIFMA Swap 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 & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available SIFMA Swap Index shall refer to an index selected by the Obligated Group Representative, with the advice of an investment banking or financial services firm knowledgeable in health care matters.

Stanford University means The Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California.

Subordinate Financial Product Extraordinary Payment means any Financial Product Extraordinary Payment other than a Parity Financial Product Extraordinary Payment.

Subordinated Indebtedness means Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Obligated Group Members under this Master Indenture.

Surviving Entity has the meaning set forth in Section 3.10.

Total Revenues means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, capitation or premium revenue and other revenue) and nonoperating gains (losses), as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year.

Transaction Test means with respect to any specified transaction, that: (i) no Event of Default or Default then exists; and (ii) following such transaction, the Obligated Group could satisfy the conditions for the issuance of $1.00 of additional Long-Term Indebtedness set forth in Section 3.05(a)(1), (a)(2) or (a)(3), assuming that such transaction occurred at the start of the most recent Fiscal Year and taking into account any other transaction entered into within the then current Fiscal Year.

UCC means the Uniform Commercial Code of the State of California, as amended from time to time.

Value, when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Obligated Group Representative, at either its Fair Market Value or its Book Value.

Section 1.02. Interpretation.

(a) Any reference herein to any officer of an Obligated Group Member shall include those succeeding to the functions, duties or responsibilities of such officer pursuant to or by operation of law or who are lawfully performing the functions of such officer.

(b) Unless the context otherwise indicates, words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. The singular shall include the plural and vice versa.

(c) Headings of Articles and Sections herein and the table of contents hereto are solely for convenience of reference, and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 1.03. References to Master Indenture. The terms "hereby," "hereof," "hereto," "herein," "hereunder," and any similar terms, used in this Master Indenture refer to this Master Indenture.

Section 1.04. Contents of Certificates; Use of GAAP.

(a) Every Certificate provided for herein with respect to compliance with any provision hereof shall include: (a) a statement that the Person making or giving such certificate has read such provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate is based; (c) a statement that, in the opinion of such Person, such Person has made, or caused to be made, such examination or investigation as is necessary to enable such Person to provide the certificate with respect to the subject matter referred to in the instrument to which such Person's signature is affixed; and (d) a statement as to whether, in the opinion of such Person, such provision has been satisfied.

(b) Any such Certificate made or given by an officer of an Obligated Group Member or the Master Trustee may be based, insofar as it relates to legal, accounting or health care matters, upon a Certificate or opinion or representation of counsel, an Accountant or Independent Consultant unless such officer knows, or in the exercise of reasonable care should have known, that the Certificate, opinion or representation with respect to the matters upon which such Certificate or opinion may be based, as aforesaid, is erroneous. Any such Certificate, opinion or representation made or given by counsel, an Accountant or an Independent Consultant, may be based, insofar as it relates to factual matters (with respect to which information is in the possession of any Obligated Group Member) upon the Certificate or opinion of, or representation by an officer of any Obligated Group Member unless such counsel, Accountant or Independent Consultant knows, or in the exercise or reasonable care should have known, that the Certificate, opinion of or representation by such officer, with respect to the factual matters upon which such Person's Certificate or opinion may be based, is erroneous. The same officer of any Obligated Group Member or the same counsel or Accountant or Independent Consultant, as the case may be, need not certify as to all the matters required to be certified under any provision hereof, but different officers, counsel, Accountants or Independent Consultants may certify as to different matters.

(c) Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, such determination or computation shall be done in accordance with GAAP in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of this Master

Indenture or (ii) the date of execution and delivery of this Master Indenture if the Obligated Group Representative delivers an Officer's Certificate to the Master Trustee describing why then current GAAP is inconsistent with the intent of the parties on the date of execution and delivery of this Master Indenture; provided (i) that intercompany balances and liabilities among the Obligated Group Members shall be disregarded and (ii) that the requirements set forth herein shall prevail if inconsistent with GAAP.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF OBLIGATIONS

Section 2.01. Authorization of Obligations. Each Obligated Group Member hereby authorizes to be issued from time to time Obligations or Series of Obligations, without limitation as to amount, except as provided herein or as may be limited by law, and subject to the terms, conditions and limitations established herein and in any Related Supplement.

Section 2.02. Issuance of Obligations. From time to time when authorized by this Master Indenture and subject to the terms, limitations and conditions established in this Master Indenture or in a Related Supplement, the Obligated Group Representative may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement. The Obligation or the Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions hereof and of any Related Supplement.

Each Related Supplement authorizing the issuance of an Obligation or a Series of Obligations shall specify the purposes for which such Obligation or Series of Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations; the date or dates of maturity or other final expiration of the term of such Obligations, if applicable; the date of issuance of such Obligations; and any other provisions deemed advisable or necessary by the Obligated Group Representative. Each Related Supplement authorizing the issuance of an Obligation shall also specify and determine the principal amount of such Obligation (if any) for purposes of calculating the percentage of Holders of Obligations required to take actions or give consents pursuant to this Master Indenture, which, if such Obligation does not evidence or secure Indebtedness, shall be equal to zero, except as is otherwise provided in Section 6.02(a). The designation of zero as a principal amount of an Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Obligation.

Section 2.03. Appointment of Obligated Group Representative. Each Obligated Group Member, by becoming an Obligated Group Member, irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants full power to the Obligated Group Representative to (a) execute Related Supplements authorizing the issuance of Obligations or Series of Obligations and (b) issue Obligations.

Section 2.04. Execution and Authentication of Obligations.

(a) All Obligations shall be executed by an Authorized Representative of the Obligated Group Representative for and on behalf of the Obligated Group as provided in the Related Supplement authorizing such Obligation. The signature of such Authorized Representative may be mechanically or photographically reproduced on the Obligations. If any Authorized Representative whose signature appears on any Obligation ceases to be such Authorized Representative before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such Authorized Representative had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized

signatory of the Master Trustee, and no Obligation shall be entitled to the benefits hereof without such authentication.

(b) The form of Certificate of Authentication to be printed on each Obligation and manually executed by an authorized signatory of the Master Trustee shall be as follows:

[FORM OF MASTER TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

The undersigned Master Trustee hereby certifies that this Obligation No. ___ is one of the Obligations described in the within mentioned Master Indenture.

Dated: _____

[Name of Master Trustee]

By _____
Authorized Signatory

Section 2.05. Conditions to the Issuance of Obligations. The issuance, authentication and delivery of any Obligation or Series of Obligations shall be subject to the following specific conditions:

(a) The Obligated Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Obligations and the repayment thereof; and

(b) The Master Trustee receives an Officer's Certificate to the effect that:

(1) each Obligated Group Member is in full compliance with all warranties, covenants and agreements set forth in this Master Indenture and in any Related Supplement; and

(2) neither an Event of Default nor any Default has occurred and is continuing or would occur upon issuance of such Obligations under this Master Indenture or any Related Supplement; and

(3) all requirements and conditions, if any, to the issuance of such Obligations set forth in the Related Supplement have been satisfied; and

(c) The Master Trustee receives an Opinion of Counsel to the effect that: (i) such Obligations and Related Supplement have been duly authorized, executed and delivered by the Obligated Group Representative on behalf of the Obligated Group and constitute valid and binding obligations of the Obligated Group, enforceable in accordance with their terms; and (ii) such Obligations are not subject to registration under federal or state securities laws and such Related Supplement is not subject to registration under the Trust Indenture Act of 1939, as amended (or that such registration, if required has occurred); and

(d) The Obligated Group Representative shall have delivered or caused to be delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may reasonably request; and

(e) With respect to any Obligation or Obligations (other than Existing Obligations), if such Obligation constitutes or secures Indebtedness, the requirements of Section 3.05 are satisfied, as evidenced by an Officer's Certificate delivered to the Master Trustee.

ARTICLE III

PAYMENTS; OBLIGATED GROUP COVENANTS

Section 3.01. Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly, all Required Payments at the place, on the dates and in the manner provided herein, or in any Related Supplement or Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Obligations hereunder. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of this Master Indenture, any Related Supplement and any Obligation.

The obligation of each Obligated Group Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(a) the granting of any extension, waiver or other concession given to any Obligated Group Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by this Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(b) the liability of any other Obligated Group Member under this Master Indenture ceasing for any cause whatsoever, including the release of any other Obligated Group Member pursuant to the provisions of this Master Indenture or any Related Supplement; or

(c) any Obligated Group Member's failing to become liable as, or losing eligibility to become, an Obligated Group Member with respect to an Obligation.

Subject to the provisions of Section 3.13 hereof permitting withdrawal from the Obligated Group, the obligation of each Obligated Group Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid or deemed paid in full in accordance with Article VII hereof. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Obligated Group Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Group Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Obligated Group Member's filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Obligated Group Member has become fixed.

Each Obligation shall be a primary obligation of the Obligated Group Members and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Obligated Group Member hereunder shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the

Master Trustee are each empowered to enforce each covenant and agreement of each Obligated Group Member hereunder and to enforce the making of Required Payments. Each Obligated Group Member hereby authorizes each of the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Obligated Group Members hereunder and to make any arrangement or compromise with any Obligated Group Member or Obligated Group Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with this Master Indenture and any Related Supplement. Each Obligated Group Member hereby waives in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Obligated Group Member, insofar as is necessary to give effect to any of the provisions of this Section.

Section 3.02. Maintenance of Properties; Payment of Indebtedness. Each Obligated Group Member hereby covenants to:

(a) maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Obligated Group Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof;

(b) maintain and operate its Property, Plant and Equipment in reasonably good working condition, and from time to time make or cause to be made all needful and proper replacements, repairs and improvements so that the operations of such Obligated Group Member will not be materially impaired;

(c) pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become Liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made in due time to prevent any delinquency thereon or any forfeiture or sale of any part of the Property, Plant and Equipment, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Obligated Group Member shall be required to pay any tax, assessment, rate or charge as long as it shall in good faith contest the validity thereof as set out in the definition of Permitted Liens;

(d) pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than obligations, Indebtedness, demands or claims (exclusive of the Obligations issued and Outstanding hereunder) the validity, amount or collectibility of which is being contested in good faith;

(e) at all times 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 noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Property;

(f) use its best efforts to maintain (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) all permits, licenses and other governmental approvals necessary for the operation of its Property; and

(g) take no action or suffer any action to be taken by others which would result in the interest on any Related Bond issued as a tax exempt obligation becoming subject to federal income taxation.

Nothing in this Section 3.02 shall be construed to require an Obligated Group Member to maintain any permit, license or other governmental approval, or to continue to operate or maintain any Property, Plant or Equipment, if, in the reasonable good faith judgment of the Obligated Group Member, such permit, license, governmental approval or Property, Plant or Equipment is, or within the next succeeding twelve (12) calendar months is reasonably expected to become, inadequate, obsolete, unsuitable, undesirable or unnecessary for the business of the Obligated Group and failure to maintain or operate such permit, license, governmental approval or Property, Plant or Equipment will not materially adversely impair the operation of the Obligated Group.

Section 3.03. Insurance Required.

(a) Each Obligated Group Member, respectively, covenants and agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles and alternative risk management programs and self-insurance, and against such risks as are customarily insured against by other health care institutions in connection with the ownership and operation of health facilities of similar character and size in the State of California.

(b) The Obligated Group Representative shall employ an Insurance Consultant at least once every two years to review the insurance requirements (including alternative risk management programs and self-insurance) of the Members. If the Insurance Consultant makes recommendations for a change in the insurance coverage required by subsection (a), the Obligated Group Members shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are not in the best interests of the Obligated Group Members or that such coverage is not obtainable at commercially reasonable rates. In lieu of maintaining insurance coverage which the Governing Body of the Obligated Group Representative deems necessary, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of the Obligated Group Representative determines to be reasonable and which shall not have a material adverse impact on reimbursement from third-party payers, 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, in writing, as reasonable and appropriate risk management by the Insurance Consultant.

(c) Notwithstanding anything in this Section to the contrary, the Obligated Group Members shall have the right, without giving rise to an Event of Default hereunder solely on such account, (1) to maintain insurance coverage below that required by subsection (a) of this Section, if the Obligated Group Representative furnishes to the Master Trustee a certificate of the Insurance Consultant that the insurance so provided accords 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 (2) to adopt alternative risk management and self-insurance programs described in (b) above.

Section 3.04. Against Encumbrances. Each Obligated Group Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, except for Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an

Obligated Group Member and is assumed by any Obligated Group Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

Section 3.05. Limitation on Indebtedness. Each Obligated Group Member covenants that it will not incur any Indebtedness, except that the Obligated Group Members may incur Indebtedness by complying with any of the following provisions:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(1) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.2:1.0;

(2) (i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available was not less than 1.2:1.0 and (ii) the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the construction, acquisition or equipping of Property to be financed by such Indebtedness (or, if the proceeds of such Indebtedness are not to be used for the construction, acquisition or equipping of Property, each of the two Fiscal Years beginning with the Fiscal Year commencing after the incurrence of such Indebtedness) with respect to all Long-Term Indebtedness projected to be Outstanding (including the additional Long- term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected by the Obligated Group Representative to be not less than 1.25:1.0. Notwithstanding the foregoing, if the Master Trustee receives a report of an Independent Consultant to the effect that Industry Restrictions prevent the Obligated Group Members from generating the required levels of Income Available for Debt Service sufficient to result in a Debt Service Coverage Ratio of not less than 1.25:1.0, the 1.25:1.0 ratio requirement described in this subsection (a)(3)(ii) shall be reduced to a ratio of not less than 1.0:1.0; or

(3) any other Long-Term Indebtedness (including, without limitation, Commercial Paper Indebtedness, treating the amount of Commercial Paper Indebtedness being incurred or Outstanding, as the case may be, as the principal amount for purposes of any calculations made to demonstrate compliance with this Section 3.05) provided that the aggregate principal amount of such Long-Indebtedness, together with any other Long-Term Indebtedness incurred pursuant to this clause (3) and then Outstanding, does not, as of the date of incurrence, exceed ten percent (10%) of Total Revenues.

(b) Completion Indebtedness without limitation;

(c) Short-Term Indebtedness provided that either (i) the provisions described in subsection (a) above are satisfied calculated as if such Short-Term Indebtedness was Long-Term Indebtedness or (ii) the following provisions are satisfied, in either case, as evidenced by an Officer's Certificate delivered to the Master Trustee:

(1) the total amount of such Short-Term Indebtedness shall not exceed twenty percent (20%) of Total Revenues; and

(2) the total amount of such Short-Term Indebtedness and Indebtedness incurred pursuant to the provision described below in clause (g) of this Section then Outstanding shall not exceed twenty-five percent (25%) of Total Revenues; and

(3) in every Fiscal Year, there shall be at least a consecutive twenty (20) day period when the balances of such Short-Term Indebtedness is reduced to an amount which shall not exceed five percent (5%) of Total Revenues.

(d) Nonrecourse Indebtedness without limitation.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and if prior to issuance or incurrence thereof there is delivered to the Master Trustee a resolution of the Governing Body of the Obligated Group Representative determining that such refunding is in the best interests of the Obligated Group, which resolution shall also state the reasons for such determination.

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions of subsection (c) of this Section 3.05, does not, as of the date of incurrence, exceed twenty-five percent (25%) of Total Revenues.

(h) Reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities which provide credit support and/or liquidity for Indebtedness.

Section 3.06. Gross Revenue Fund.

(a) Each Obligated Group Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in one or more deposit accounts designated as the "Gross Revenue Fund" which the Obligated Group Representative established and agreed to maintain pursuant to the provisions of the Existing Master Indenture, subject to the provisions of subsection (b) of this Section 3.06, at such financial institution or institutions as the Obligated Group Representative shall from time to time designate, in writing, for such purpose (each, a "Depository Bank" and herein collectively called the "Depository Bank") and which has entered into an Account Control Agreement with the Obligated Group Members and the Master Trustee. As security for the payment of Required Payments and the performance by each Obligated Group Member of its other obligations under the Master Indenture, each Obligated Group Member hereby ratifies and affirms (i) the pledge and assignment to the Master Trustee set forth in the Existing Master Indenture and (ii) the grant to the Master Trustee of a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to all Collateral, including Gross Revenues and the Gross Revenue Fund. Each of the Obligated Group Members has executed or shall execute an Account Control Agreement, has executed or shall execute and cause to be filed Uniform Commercial Code financing statements, and has executed or shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary in order to perfect or maintain the perfection of such security interest. Each Obligated Group Member

hereby irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. Each Obligated Group Member also hereby ratifies its authorization for the Master Trustee to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date hereof. Each Obligated Group Member represents and warrants that it is a nonprofit public benefit corporation organized solely under the laws of the jurisdiction of its organization and that its complete legal name is as set forth on the signature page of the Master Indenture or Related Supplement, as applicable, executed by such Obligated Group Member. Each Obligated Group Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

(b) Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Obligated Group Member at any time for any lawful purpose, except as hereinafter provided. In the event that any Obligated Group Member is delinquent for more than one (1) Business Day in the payment of any Required Payment, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, unless such Required Payment is paid within ten (10) days after receipt of such notice, the Master Trustee shall be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to the Depository Bank. Upon delivery of the Order with respect to the Gross Revenue Fund, exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided in Section 3.06(a) and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Obligated Group Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Obligated Group Member; provided, however, that Obligated Group Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Obligated Group Member agrees to execute and deliver all instruments as may be required to implement this Section 3.06. Each Obligated Group Member further agrees that a failure to comply with the terms of this Section shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Obligated Group Members as provided in this Section 3.06.

(c) Upon receipt of Gross Revenues, each Obligated Group Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Fund and not in any other fund or account; (ii)

that the Gross Revenue Fund will be held as a deposit at the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

Notwithstanding any other provision of this Master Indenture, the Gross Revenue Fund may consist of any number of deposit accounts provided that each such deposit account shall be established at a Depository Bank which has entered into an Account Control Agreement with the Master Trustee and one or more Obligated Group Members.

Section 3.07. Debt Coverage.

(a) Each Obligated Group Member, respectively, further covenants and agrees to manage its operations such that Income Available for Debt Service for the Obligated Group calculated at the end of each Fiscal Year will be not less than 1.10 times Maximum Annual Debt Service.

(b) Within five (5) months after the end of each Fiscal Year, the Obligated Group Representative shall compute the Debt Service Coverage Ratio for the Obligated Group for such Fiscal Year and furnish to the Master Trustee, an Officer's Certificate setting forth the results of such computation. The Obligated Group Representative covenants that if at the end of such Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.1:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Group or the methods of operation of the Obligated Group to increase the Debt Service Coverage Ratio to at least 1.1:1.0 for subsequent Fiscal Years (or, if in the opinion of the Independent Consultant, the attainment of such level is impracticable, to the highest practicable level). Copies of the recommendations of the Independent Consultant shall be filed with the Master Trustee within ninety (90) days of the retention of the Independent Consultant. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If either (i) the Obligated Group complies in all material respects with the reasonable recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection or (ii) the Obligated Group Representative determines that such recommendations are not in the best interests of the Obligated Group (and accordingly will not be followed) as evidenced by an Officer's Certificate filed with the Master Trustee, the Obligated Group will be deemed to have complied with the covenants set forth in this Section for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio shall be less than 1.1:1.0; provided, however, that the Debt Service Coverage Ratio shall not be reduced to less than 1.0:1.0 for any Fiscal Year. Notwithstanding the foregoing, the Obligated Group Members shall not be excused from taking any action or performing any duty required under this Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this subsection (b).

(c) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the Debt Service Coverage Ratio of 1.1:1.0 to be met, then such ratio shall be reduced to 1.0:1.0.

(d) Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing

Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant; provided, however, that the Debt Service Coverage Ratio shall not be reduced to a ratio of less than 1.0:1.0.

Section 3.08. Reserved.

Section 3.09. Limitation on Disposition of Assets.

(a) Each Obligated Group Member covenants that it will not sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (i) such Property as is described in Exhibit D hereto (the "Excluded Property") which may be disposed of by the Obligated Group solely upon the written consent of the Obligated Group Representative; (ii) in the ordinary course of business; or (iii) as part of a disposition of all or substantially all of its assets as permitted by Section 3.10), with a Book Value in excess of ten percent (10%) of the Book Value of the Property of the Obligated Group, unless prior to said disposition:

(1) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is or shall become within the next two (2) Fiscal Years inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group Members; or

(2) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Value of the Property so disposed of by the Obligated Group Members in any Fiscal Year pursuant to the provision described in this clause (2) does not exceed five percent (5%) of the total Value of the Property of the Obligated Group; or

(3) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Person who is not an Obligated Group Member if such Person shall become a Member pursuant to Section 3.12 substantially simultaneously with such transfer; or

(4) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to another Person in connection with a sale/leaseback or lease/leaseback financing transaction relating to such Property; or

(5) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and does not materially adversely affect the operations of the Obligated Group; or

(6) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

(b) Notwithstanding the foregoing, nothing shall prohibit any disposition of assets among Obligated Group Members nor shall prohibit the Obligated Group Members from: (1) making loans, including, without limitation, employee relocation loans, physician recruitment loans or other credit/funding extensions, provided that such loans or other credit/funding extensions are in writing and the Master Trustee receives an Officer's Certificate to the effect that (x) such loans are in furtherance of the exempt purposes of the Obligated Group Members or (y) the Obligated Group Members reasonably

expect such loans to be repaid and such loans bear interest at a reasonable rate of interest and on commercially reasonable terms; or (2) transferring restricted gifts for the Obligated Group Members to an Affiliated Corporation which has the purpose to receive and disburse such restricted gifts.

Section 3.10. Merger, Consolidation, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a "Merger Transaction") unless:

(a) After giving effect to the Merger Transaction,

(1) the successor or surviving entity (hereinafter, the "Surviving Entity") is an Obligated Group Member, or

(2) the Surviving Entity shall

(A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, and

(B) become an Obligated Group Member pursuant to Section 3.12 and, pursuant to the Related Supplement required by Section 3.12(b), shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member hereunder; and

(b) The Master Trustee receives an Officer's Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction; and

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation; and

(d) The Master Trustee receives an Opinion of Counsel to the effect that: (i) all conditions in this Section 3.10 relating to the Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions set forth in this Section 3.10 and is liable on all Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Obligations then Outstanding and such Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as though it were an Obligated Group Member as of the date of the execution of this Master Indenture and shall thereafter have the right to participate in transactions hereunder relating to Obligations to the same extent as the other Obligated Group Members.

All Obligations issued hereunder on behalf of a Surviving Entity shall have the same legal rank and benefit under this Master Indenture as Obligations issued on behalf of any other Obligated Group Member.

Section 3.11. Preparation and Filing of Financial Statements, Certificates and Other Information.

(a) Each Obligated Group Member covenants that it will keep adequate records and books of accounts in which complete and correct entries shall be made (said books shall be subject to the inspection by the Master Trustee (which inspection the Master Trustee is not required to make) during regular business hours after reasonable notice and under reasonable circumstances).

(b) The Obligated Group Representative covenants that it will furnish to the Master Trustee and any Related Bond Issuer that shall request the same in writing:

(1) As soon as practicable, but in no event more than five (5) months after the last day of each Fiscal Year, one or more financial statements which, in the aggregate, shall include the Obligated Group Members. Such financial statements:

(A) may consist of (i) consolidated or combined financial results including one or more Members of the Obligated Group and one or more other Persons required to be consolidated or combined with such Member(s) of the Obligated Group under GAAP or (ii) special purpose financial statements including only Members of the Obligated Group;

(B) shall be audited by an Accountant selected by the Obligated Group Representative and shall be prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations);

(C) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(D) if financial statements delivered to the Master Trustee pursuant to this subsection include financial information with respect to any Person who is not an Obligated Group Member or an Immaterial Affiliate as provided pursuant to clause (3) below or do not include financial information with respect to all Obligated Group Members, then the financial statements shall contain a consolidating or combining schedule from which financial information solely relating to the Obligated Group Members and Immaterial Affiliates may be derived.

(2) At the time of the delivery of financial statements complying with the provisions of Section 3.11(b)(1) (the "Financial Statements"), a certificate of the chief financial officer of the Obligated Group Representative, stating that the Obligated Group Representative has made a review of the activities of the Obligated Group Members during the preceding Fiscal Year for the purpose of determining whether or not the Obligated Group Members have complied with all of the terms, provisions and conditions of this Master Indenture and that each Obligated Group Member has kept, observed, performed and fulfilled each and every covenant, provision and condition of this Master Indenture on its part to be performed and none of such Obligated Group Members is in default in the performance or observance of any of the terms, covenants,

provisions or conditions, or if any Obligated Group Member shall be in default, such certificate shall specify all such defaults and the nature thereof.

(3) Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates need not be excluded from Financial Statements delivered to the Master Trustee pursuant to this Section 3.11, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Obligated Group Members for all purposes of this Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates.

(c) The Master Trustee shall not be obligated to review, verify, or analyze any Financial Statements delivered to the Master Trustee hereunder, and shall only retain such Financial Statements as a repository for the Holders.

Section 3.12. Membership in Obligated Group. Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of this Master Indenture;

(b) a Related Supplement executed by the Obligated Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member

(1) agrees to become an Obligated Group Member, and

(2) agrees to be bound by the terms of this Master Indenture, the Related Supplements and the Obligations, and

(3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations, to execute and deliver Obligations and to make payments on all Obligations;

(c) an Opinion of Counsel to the effect that: (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of this Master Indenture; (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed new Obligated Group Member

will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation.

Section 3.13. Withdrawal from Obligated Group. Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of this Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) the written consent of the Obligated Group Representative to the withdrawal of such Obligated Group Member;

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel to the effect that: (i) the withdrawal of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (ii) the withdrawal of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Upon compliance with the conditions contained in this Section 3.13, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations hereunder, under all Related Supplements and under all Obligations.

Notwithstanding the foregoing, the Corporation may not withdraw from the Obligated Group unless prior to or concurrently with such withdrawal, the Corporation shall transfer all or substantially all of its assets to another Member of the Obligated Group.

ARTICLE IV

DEFAULTS

Section 4.01. Events of Default. Each of the following events shall be an Event of Default hereunder:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on, or any other Required Payment on, any Obligation.

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under this Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) and shall not have cured such failure within sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations; provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the failure.

(c) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(d) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(e) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default hereunder which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

Section 4.02. Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may, and, upon (i) the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default under Section 4.01(a) hereof has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or herein to the contrary notwithstanding; provided, however, that if the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations. Notwithstanding the foregoing, no Obligation shall be accelerated if the Event of Default is the result of the nonpayment of a Subordinate Financial Product Extraordinary Payment issued on or after the date of effectiveness of this Master Indenture set forth in Section 8.10.

(b) At any time after the Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(1) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than payments then due only because of such declaration);

(2) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due;

(3) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group hereunder; and

(4) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Section 4.03. Additional Remedies and Enforcement of Remedies.

(a) 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 twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Obligated Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders hereunder by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(1) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(2) Civil action upon all or any part of the Obligations;

(3) 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 of Obligations;

(4) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Obligations; and

(5) Enforcement of any other right or remedy of the Holders conferred by law or hereby.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict

with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request.

Section 4.04. 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 this Article (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of this Article):

First: To the payment of all installments of interest then due on the Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on such date, without any discrimination or preference;

Second: To the payment of all installments of principal then due on the Obligations (whether at maturity or by call for redemption) and other unpaid Required Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of principal due on the same date, then to the payment thereof ratably, according to the amounts of principal due on such date, without any discrimination or preference;

Third: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of this Article):

First: To the payment of the principal and interest and other Required Payments (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments, but excluding Subordinate Financial Product Extraordinary Payments) then due and unpaid on the Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment or payment over any other installment or payment or of any Obligation over any other Obligation, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue, provided such moneys are applied by the Master Trustee to the payment of such principal. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this Section and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or such Person as a court of competent jurisdiction may direct.

Section 4.05. Remedies Not Exclusive. No remedy granted by the terms of this Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity.

Section 4.06. Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Subject to the provisions of Section 4.04 hereof, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations.

Section 4.07. Master Trustee to Represent Holders. The Master Trustee is hereby irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the rights and remedies available to the Holders under the provisions of this Master Indenture, the Obligations, any Related Supplement and applicable provisions of law, in each case subject to the provisions of Section 4.08. The Holders, by taking and holding the Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

Section 4.08. Holders' Control of Proceedings. If an Event of Default has occurred and is continuing, notwithstanding anything herein to the contrary, the Holders of at least a majority in aggregate principal amount of Outstanding Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms hereof. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in such direction. Nothing in this Section shall impair the right of the Master Trustee to take any other action

authorized by this Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Section 4.09. Termination of Proceedings. In case any proceeding instituted by the Master Trustee with respect to any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or the Holders, then the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder. All rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Section 4.10. Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by this Article to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Obligations, the Master Trustee shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02 hereof, the failure to pay the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Section 4.11. Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Obligations to be due and payable, (b) after declaring the Obligations to be due and payable, or (c) upon the commencement of any 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 Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such appointment shall confer. Each Obligated Group Member consents, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.12. Remedies Subject to Provisions of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law. All the provisions of this Article are intended to be subject to all applicable mandatory provisions of law that may be continuing and to be limited to the extent necessary so that they will not render any provision hereof invalid or unenforceable under the provisions of any applicable law.

Section 4.13. Notice of Default. Within ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term "Event of Default" for the purposes of this Section being limited to the events specified in subsections (a)-(f) of Section 4.01, not including any periods of grace provided for in subsections (b), (c) and (d), and regardless of the giving of written notice specified in subsection (b) of Section 4.01). 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 subsections (d) and (e) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

Section 4.14. Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies. Upon securing the consent of the Holders of 100% in aggregate principal amount of the Outstanding Obligations, references to twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations set forth in Section 4.01(b), Section 4.02(a) and 4.03(a) shall be revised to read as follows:

"a majority in aggregate principal amount of Outstanding Obligations"

ARTICLE V

THE MASTER TRUSTEE

Section 5.01. Certain Duties and Responsibilities; Liability of Master Trustee.

(a) Except during the continuance of an Event of Default:

(1) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture, and no implied covenant or obligation shall be read into this Master Indenture against the Master Trustee; and

(2) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon Certificates or opinions furnished to the Master Trustee and conforming to the requirements of this Master Indenture; but in the case of any Certificate or opinion specifically required by the provisions hereof to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine such Certificate or opinion to determine whether or not it conforms to the requirements of this Master Indenture.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of its own affairs.

(c) The Master Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct. No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(2) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(3) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of Obligations Outstanding relating to the timing, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee under this Master Indenture;

(4) no provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; and

(5) the Master Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to any Event of Default or any event which would, with the giving of notice or the passing of time or both, constitute an Event of Default, unless a Responsible Officer in the Corporate Trust Office of the Master Trustee shall have actual knowledge of such Event of Default or shall have been notified in writing of such event by any Obligated Group Member or by the Holder of an Obligation.

The Master Trustee will keep on file at its office a list of the names and addresses of the last known Holders of all Obligations. At reasonable times and under reasonable regulations established by the Master Trustee, said list may be inspected and copied by the Obligated Group Members, any Holder or the authorized representative thereof, provided that the ownership of such Holder and the authority of any such designated representative shall be evidenced to the satisfaction of the Master Trustee.

(d) Every provision of this Master Indenture relating to the conduct of, affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section.

Section 5.02. Certain Rights of Master Trustee. Subject to Section 5.01:

(a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any document, including, without limitation, any opinion, request, written consent or certificate, believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request or direction of the Obligated Group Representative mentioned herein shall be sufficiently evidenced by an Officer's Certificate. Any action of the Governing Body of any Obligated Group Member shall be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Obligated Group Member to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, allowing or omitting any action hereunder,

the Master Trustee may (in the absence of bad faith on its part and unless other evidence is specifically prescribed by this Master Indenture) request and conclusively rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel of its selection, and any opinion of such counsel shall be full and complete authorization and protection with respect to any action taken, allowed or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction; provided, however, that no security or indemnity shall be required for the giving of notice of default pursuant to Section 4.13.

(f) The Master Trustee shall not be bound to make any investigation into the facts stated in any document delivered to it hereunder, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts as it may see fit. If the Master Trustee determines to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Obligated Group Member (excluding specifically donor records, patient records and personnel records), personally or by agent or attorney, during regular business hours and after reasonable notice.

(g) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys. The Master Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(h) The Master Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Master Indenture.

(i) The Master Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Master Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Master Trustee at the Corporate Trust Office of the Master Trustee, and such notice references this Master Indenture.

(j) The Master Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control and without its fault or negligence, including, but not limited to, acts of God, acts of the public enemy or terrorists, earthquakes, fires, floods, war, civil or military disturbances, sabotage, epidemics, quarantine restrictions, riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service, accidents, labor disputes, acts of civil or military authority or governmental actions affecting the performance of its duties under this Master Indenture, it being understood that the Master Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(k) The Master Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of any Related Bonds.

Section 5.03. Right to Deal in Obligations and Related Bonds. The Master Trustee may buy, sell or hold and deal in any Obligations and Related Bonds with the same effect as if it were not the Master Trustee. The Master Trustee may commence or join in any action which a Holder or holder of a Related Bond is entitled to take with the same effect as if the Master Trustee were not the Master Trustee.

Section 5.04. Removal and Resignation of the Master Trustee.

(a) The Master Trustee may be removed at any time by an instrument or instruments in writing signed by (1) the Holders of not less than a majority of the principal amount of Outstanding Obligations or (2) (unless an Event of Default has occurred and is then continuing) the Obligated Group Representative.

(b) The Master Trustee may at any time resign by giving written notice of such resignation to the Obligated Group Representative.

(c) No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created hereby. Written notice of removal of the predecessor Master Trustee and/or appointment of the successor Master Trustee shall be given by the successor Master Trustee within ten (10) days of the successor's acceptance of appointment to the Obligated Group Members and to each Holder at the addresses shown on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than a majority in aggregate principal amount of Outstanding Obligations, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, any Obligated Group Member or any Holder may apply at the expense of the Obligated Group Members to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

(d) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a national banking association in good standing under the laws of the United States of America or a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America, and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(e) Every successor Master Trustee shall execute and deliver to its predecessor and to each Obligated Group Member a written instrument accepting such appointment. Upon the delivery of such acceptance, the successor Master Trustee shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor shall execute and deliver to the successor Master Trustee a written instrument transferring to the successor Master Trustee all the rights, powers and trusts of the predecessor. The predecessor Master Trustee (upon payment of all amounts owed to it) shall execute any documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Section 5.05. Compensation and Reimbursement. Subject to the provisions of any specific agreement between the Obligated Group Representative and the Master Trustee relating to the compensation of the Master Trustee, each Obligated Group Member agrees:

(a) To pay the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(b) Except as otherwise expressly provided herein, to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and its agents), except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct.

(c) To indemnify each of the Master Trustee and any predecessor Master Trustee for, and to hold it harmless against, any and all loss, liability, damages, claim or expense, including legal fees and expenses and taxes (other than taxes based on the income of the Master Trustee), incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust or its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Master Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 4.01(c) or Section 4.01(d), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Master Indenture and the resignation or removal of the Master Trustee.

Section 5.06. Recitals and Representations. The recitals, statements and representations contained herein or in any Obligation (excluding the Master Trustee's authentication on the Obligations) shall be taken and construed as made by and on the part of the Obligated Group Members, and not by the Master Trustee. The Master Trustee assumes no responsibility for the correctness of such statements.

The Master Trustee makes no representation as to, and is not responsible for, the validity or sufficiency of this Master Indenture or of the Obligations. The Master Trustee shall not be concerned with or accountable to anyone for the use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof. The Master Trustee shall have no duty of inquiry with respect to any Event of Default without actual knowledge of or receipt by the Master Trustee of written notice of an Event of Default from an Obligated Group Member or any Holder.

Section 5.07. Separate or Co-Master Trustee. At any time, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee may appoint one or more Persons either to act as co-master trustee with the Master Trustee, or to act as separate master trustee, and to vest in such Persons or Persons, such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section.

Every co-master trustee or separate master trustee shall, to the extent permitted by law, be appointed subject to the following terms:

(a) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed as shall be provided in the instrument appointing such co-master trustee or separate master trustee, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee is incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co master trustee or separate master trustee.

(c) Any request in writing by the Master Trustee to any co-master trustee or separate master trustee to take or to refrain from taking any action hereunder shall be sufficient for the taking, or the refraining from taking, of such action by such Person.

(d) Any co-master trustee or separate master trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Master Trustee may at any time, by an instrument in writing, accept the resignation of or remove any co master trustee or separate master trustee appointed under this Section. Upon the request of the Master Trustee, the Obligated Group Members shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder, nor will the act or omission of any trustee hereunder be imputed to any other trustee.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-master trustee or separate master trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-master trustee or separate master trustee hereunder shall be turned over to the Master Trustee immediately.

Upon the acceptance in writing of such appointment by any co master trustee or separate master trustee, such Person shall be vested with such rights, powers, duties or obligations as are specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-master trustee or separate master trustee to act alone) subject to all the terms hereof. Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-master trustee or separate master trustee may, at any time by an instrument in writing, constitute the Master Trustee its attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its behalf and in its name.

In case any co-master trustee or separate master trustee shall become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of such Person shall, so far as permitted

by law, vest in and be exercised by the Master Trustee unless and until a successor co-master trustee or separate master trustee shall be appointed in the manner herein provided.

Section 5.08. Merger or Consolidation. Any company into which the Master Trustee may be merged or converted, or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it is a party, or any company to which the Master Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 5.04) shall be the successor to the Master Trustee without the execution or filing of any paper or any further act.

ARTICLE VI

SUPPLEMENTS AND AMENDMENTS

Section 6.01. Supplements Not Requiring Consent of Holders. The Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

(a) To correct any ambiguity or formal defect or omission in this Master Indenture;

(b) To correct or supplement any provision which may be inconsistent with any other provision or to make any other provision with respect to matters or questions arising hereunder, which, in either case, does not materially and adversely affect the interests of the Holders;

(c) To grant or confer ratably upon all of the Holders any additional benefits, rights, remedies, powers or authority, including, without limitation, the addition of provisions providing for the creation of a credit group which credit group shall consist of all Obligated Group Members and Persons designated as affiliates of Obligated Group Members, or to add to the covenants of and restrictions on the Obligated Group Members;

(d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;

(e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted hereunder;

(f) To obligate a successor to any Obligated Group Member as provided in Section 3.10;

(g) To add a new Obligated Group Member as provided in Section 3.12; or

(h) To make any other change which does not materially and adversely affect the interests of the Holders.

Section 6.02. Supplements Requiring Consent of Holders.

(a) Other than Related Supplements referred to in Section 6.01 hereof and subject to the terms contained in this Article, the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of

modifying, altering, amending, adding to or rescinding any of the terms contained herein; provided, however, with respect to any Obligation issued on or after the date of effectiveness of this Master Indenture set forth in Section 8.10, registered in the name of a Related Bond Trustee and securing a Related Series of Bonds, payment of the principal of and interest on which is insured or otherwise guaranteed by a municipal bond insurance policy or is secured by a letter of credit, the provider of such municipal bond insurance or letter of credit shall be deemed to be the Holder of such Obligation for purposes of consenting to and approving the execution of Related Supplements for purposes of this Section 6.02, subject to the provisions set forth in Section 8.04 and as except as otherwise provided in the applicable Related Supplement or Obligation; and provided, further, however, that nothing in this Section shall permit or be construed as permitting a Related Supplement which would:

(i) extend the stated maturity of, or time for paying interest on, any Obligation or reduce the principal amount of or the redemption premium or rate of interest or change the method of calculating interest payable on, or reduce any other Required Payment on any Obligation without the consent of the Holder of such Obligation;

(ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in Article IV hereof so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, 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 Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives: (i) a Request of the Obligated Group Representative to enter into such Related Supplement; (ii) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement; (iii) the proposed Related Supplement; and (iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Obligated Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation

thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Section 6.03. Execution and Effect of Supplements.

(a) In executing any Related Supplement permitted by this Article, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Related Supplement is authorized or permitted hereby. The Master Trustee may (but shall not be obligated to) enter into any Related Supplement that materially and adversely affects the Master Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any Related Supplement in accordance with this Article, the provisions of this Master Indenture shall be deemed modified in accordance therewith. Such Related Supplement shall form a part hereof for all purposes and every Holder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Related Supplement in accordance with this Article may, and, if required by the Obligated Group Representative or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Related Supplement. If the Obligated Group Representative or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of the Obligated Group Representative to any such Related Supplement may be prepared and executed by the Obligated Group Representative and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

Section 6.04. Amendment of Related Supplements. Any Related Supplement may provide that the provisions thereof may be amended without the consent of or notice to any of the Holders, or pursuant to such terms and conditions as may be specified in such Related Supplement. If a Related Supplement does not contain provisions relating to the amendment thereof, the amendment of such Related Supplement shall by governed by the provisions of Section 6.01 and Section 6.02 hereof.

ARTICLE VII

SATISFACTION AND DISCHARGE

Section 7.01. Satisfaction and Discharge of Master Indenture. This Master Indenture shall cease to be of further effect if:

(a) all Obligations previously authenticated (other than any Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or

(b) all Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or

(c) a deposit is made in trust with the Master Trustee (or with one or more national banking associations or trust companies acceptable to the Master Trustee pursuant to an agreement between an Obligated Group Member and such national banking associations or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation,

including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and

all other sums payable hereunder by the Obligated Group Members are also paid. The Master Trustee, on demand of the Obligated Group Representative and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture and authorizing the Obligated Group Representative to file such terminations and releases as may be necessary to evidence the termination of the Master Trustee's security interest in the Gross Revenues. Unless the deposit pursuant to clause (c) above is made solely with cash, the Master Trustee may request that the Obligated Group Representative provide a report prepared by an accountant or other financial services firm regarding the sufficiency of the funds for such discharge and satisfaction provided pursuant to clause (c) above (such report being hereinafter referred to as a "Verification Report"). If the Master Trustee shall have been provided with a Verification Report, the Master Trustee shall be entitled to rely upon such Verification Report.

The Obligated Group Members shall pay and indemnify the Master Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to this Section 7.01 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Obligations.

Notwithstanding the satisfaction and discharge of this Master Indenture, the obligations of the Obligated Group Members to the Master Trustee under Section 5.05 hereof shall survive.

Section 7.02. Payment of Obligations After Discharge of Lien. Notwithstanding the discharge of the lien of this Master Indenture as provided in this Article, the Master Trustee shall retain such rights, powers and duties as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and for the registration, transfer, exchange and replacement of Obligations. Any moneys held by the Master Trustee for the payment of the principal of, premium, if any, or interest or other Required Payment on any Obligation remaining unclaimed for one year after the principal of all Obligations has become due and payable, whether at maturity, upon proceedings for redemption or by declaration as provided herein, shall then be paid to the Obligated Group Members. The Holders of any Obligations not previously presented for payment shall thereafter be entitled to look only to the Obligated Group Members for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.01. Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Master Indenture or the Obligations is intended or shall be construed to give to any Person other than each Obligated Group Member, the Master Trustee, the Related Bonds Issuers and the Holders any legal or equitable right, remedy or claim under or with respect to this Master Indenture. This Master Indenture and all of the covenants, conditions and provisions hereof are intended to be and are for the sole and exclusive benefit of the parties mentioned in this Section.

Section 8.02. Severability. If any part of this Master Indenture is for any reason held invalid or unenforceable, no other part shall be invalidated or deemed unenforceable.

Section 8.03. Holidays. Except to the extent a Related Supplement or an Obligation provides otherwise:

(a) Subject to subsection (b), when any action is provided herein to be done on a day or within a time period named, and the day or the last day of the period falls on a day on which banking institutions in the jurisdiction where the Corporate Trust Office is located are authorized by law to remain closed, the action may be done on the next ensuing day that is not a day on which banking institutions in such jurisdiction are authorized by law to remain closed, with the same effect as if done on the day or within the time period named.

(b) When the date on which principal of or interest or premium on any Obligation is due and payable is a day on which banking institutions at the place of payment are authorized by law to remain closed, payment may be made on the next ensuing day on which banking institutions at such place are not authorized by law to remain closed with the same effect as if payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date.

Section 8.04. Credit Enhancer Deemed Holder of Obligation. Except to the extent a Related Supplement or an Obligation provides otherwise, any credit enhancer of Related Bonds shall be deemed the Holder of the related Obligation for purposes of this Master Indenture for so long as the credit enhancement is in effect and the credit enhancer is not in default thereunder. If the credit enhancement is applicable to a portion of Related Bonds, such Related Obligation shall be treated as if such Related Obligation were two Obligations, one in the principal amount of the Related Bonds for which the credit enhancement is applicable and another in the principal amount of the remainder of the Related Bonds.

Section 8.05. Governing Law. This Master Indenture and the Obligations are contracts made under the laws of the State of California, and shall be governed by and construed in accordance with such laws applicable to contracts made and performed in said State.

Section 8.06. Counterparts. This Master Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 8.07. Immunity of Individuals. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Obligations issued hereunder or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of any Obligated Group Member which is a corporation, whether directly or indirectly. All liability of any such individual is hereby expressly waived and released as a condition of and in consideration for the execution hereof and the issuance of the Obligations.

Section 8.08. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon each Obligated Group Member, the Master Trustee and their respective successors and assigns, subject to the limitations contained herein.

Section 8.09. Notices.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be in writing and shall be deemed sufficiently given or served if given: (i) by facsimile or electronic mail with prompt telephonic confirmation of receipt; (ii) personally by hand; (iii) by overnight delivery service; or (iv) by first class mail, postage prepaid and addressed as follows:

(1) If to the Obligated Group Representative, addressed to it at 300 Pasteur Drive, M/C 5554, Stanford, California 94305, Attention: Chief Financial Officer;

(2) If to the Master Trustee, addressed to it at the Corporate Trust Office; or

(3) If to the registered Holder of an Obligation, addressed to such Holder at the address shown on the books of the Master Trustee.

(b) The Obligated Group Representative or the Master Trustee may from time to time designate a different address or addresses for notice by notice in writing to the others and to the Holders.

Section 8.10. Effectiveness. Amendment and Restatement of the Existing Master Indenture as set forth in this Master Indenture shall take effect on _____.

IN WITNESS WHEREOF, **Stanford Hospital and Clinics** has caused this Amended and Restated Master Indenture of Trust to be signed in its name by its duly authorized officer, and to evidence its acceptance of the trusts and agreements hereby created **The Bank of New York Mellon Trust Company, N.A.** has caused this Amended and Restated Master Indenture of Trust to be signed in its name by one of its duly authorized officers, all as of the day and year first above written.

Stanford Hospital and Clinics

By:_____
Chief Financial Officer

The Bank of New York Mellon Trust Company, N.A., as Master Trustee

By:_____
Authorized Representative

Exhibit A

Existing Financial Products Agreements*

1. ISDA Master Agreement, dated as of September 1, 2007, between Bear Stearns Financial Products Inc. and Stanford Hospital and Clinics (the "Corporation"), the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement dated as of September 1, 2007, together with Confirmations FXNEC5267, FXNEC5272, FXNEC5273, FXNEC5274 and FXNEC5275, each dated September 1, 2007.

2. ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmations MSCS Ref. No. AUBRJ, dated June 17, 2003, MSCS Ref. No. AUKNU, dated May 28, 2008, and MSCS Ref. No. AUN19 dated November 17, 2008.

3. ISDA Master Agreement, dated as of August 22, 2008, between JPMorgan Chase Bank, N.A. and the Corporation, the Schedule to the ISDA Master Agreement, dated as of August 22, 2008, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of August 22, 2008, as amended by the 1st Amendment Agreement, dated as of November 1, 2008, and Novation Confirmations dated August 29, 2008 numbered FXNEC9723/REF 0500007010836, FXNEC9724/REF 0500007010837, FXNEC9725/REF 0500007010838 and FXNEC9726/REF 0500007010839, and Confirmations dated November 17, 2008 numbered REF 0500007012923 and REF 0500007010878.

* Note: Listing reflects Financial Products Agreements in effect as of the date of the Official Statement to which this Appendix G is attached. Listing to be attached to the Amended and Restated Master Indenture of Trust will reflect Financial Products Agreements in effect as of the effective date of the Amended and Restated Master Indenture of Trust.

Exhibit B

Existing Obligations*

Obligation	Obligation Holder
1. Obligation No. 9 issued in the original principal amount of $100,000,000	U.S. Bank National Association ("U.S. Bank"), as trustee under the Indenture, dated as of June 1, 2003, between California Health Facilities Financing Authority("CHFFA") and U.S. Bank
2. Obligation No. 13, consisting of the ISDA Master Agreement dated as of September 1, 2007 between Bear Stearns Financial Products Inc. and the Stanford Hospital and Clinics (the "Corporation"), the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, together with Confirmations FXNEC5267, FXNEC5272, FXNEC5273, FXNEC5274 and FXNEC5275, each dated September 1, 2007	Bear Stearns Financial Products Inc.
3. Obligation No. 14, consisting of ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmation MSCS Ref. No. AUBRJ dated June 17, 2003	Morgan Stanley Capital Services Inc.
4. Obligation No. 19, issued in the original principal amount of $428,500,000	Wells Fargo National Bank, National Association ("Wells Fargo"), as trustee, under the Indenture, dated as of June 1, 2008, between CHFFA and Wells Fargo

*Note: Listing reflects Obligations Outstanding as of the date of the Official Statement to which this Appendix G is attached, assuming that all transactions described under the caption "The Plan of Finance" occur. Listing to be attached to the Amended and Restated Master Indenture of Trust will reflect Obligations Outstanding as of the effective date of the Amended and Restated Master Indenture of Trust.

Obligation	Obligation Holder
5. Obligation No. 20, issued in the original principal amount of $105,674,334.25	Bank of America, N.A. ("B of A"), as issuer of a letter of credit, dated June 1, 2008, under the Reimbursement, Credit and Security Agreement, dated as of June 1, 2008 between the Corporation and B of A
6. Obligation No. 21, consisting of the ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmations MSCS Ref. No. AUKNU dated May 28, 2008 and AUN19 dated November 17, 2008	Morgan Stanley Capital Services Inc.
7. Obligation No. 25, consisting of ISDA Master Agreement dated as of August 22, 2008, between JPMorgan Chase Bank, N.A. and the Corporation, the Schedule to the ISDA Master Agreement, dated as of August 22, 2008, the related ISDA Credit Support Annex to the ISDA Master Agreement dated as of August 22, 2008, as amended by the 1st Amendment Agreement, dated as of February 5, 2009, and Novation Confirmations dated August 29, 2008 numbered FXNEC9723/REF 0500007010836, FXNEC9724/REF 0500007010837, FXNEC9725/REF 0500007010838 and FXNEC9726/REF 0500007010839, and Confirmations dated November 17, 2008 numbered REF 0500007012923 and REF 0500007010878)	JPMorgan Chase Bank. N.A.
8. Obligation No. 26, issued in the original principal amount of $50,000,000	U.S. Bank, as agent (the "Agent") under the Reimbursement Agreement, dated as of February 1, 2009, among the Corporation, the Agent and others
9. Obligation No. 27, issued in the original principal amount of $35,000,000	Wells Fargo, under the Reimbursement Agreement, dated as of April 1, 2009

Exhibit C

Existing Parity Financial Product Extraordinary Payments*

Settlement Amounts payable by Stanford Hospital and Clinics under the terms of Obligation No. 13 or Obligation No. 14 (each identified on Exhibit B to this Amended and Restated Master Indenture of Trust), respectively, if (and only if) Financial Security Assurance Inc., under the terms of the Financial Guaranty Insurance Policy Nos. 201227-SWPA and 201227-SWPB, each issued July 1, 2003, shall direct or consent to early termination of Obligation No. 13 or Obligation No. 14, respectively, in which event such Settlement Amounts are entitled by the terms of Supplemental Master Indenture No. 13 and No. 14, respectively, to be equally and ratably secured by any lien created under the Master Indenture and all other Obligations except as otherwise provided in the Master Indenture.

* Note: Listing reflects Parity Financial Product Extraordinary Payments as of the date of the Official Statement to which this Appendix G is attached. Listing to be attached to the Amended and Restated Master Indenture of Trust will reflect Parity Financial Product Extraordinary Payments, if any, as of the effective date of the Amended and Restated Master Indenture of Trust.

Exhibit D

Description of Excluded Property

1. The membership interests of Stanford Hospital and Clinics in Menlo Health Alliance, LLC, a California limited liability company, valued at $1,900,000.

2. Hoover Pavilion, meaning the property described in Exhibit A-2 and Exhibit B-2 of the Lease, and all buildings and improvements located thereon, together with all furnishings and equipment located thereon, appraised for insurance purposes as having a value of $27,685,000.

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