In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 2003 A 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 2003 A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2003 A Bonds. See “Tax Matters” herein.

$100,000,000
California Health Facilities Financing Authority
Revenue Bonds
(Stanford Hospital and Clinics)
2003 Series A

Dated: Date of Delivery Due: November 15, as set forth below

The 2003 A Bonds are issuable in the fully registered form only in denominations of $5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”). Beneficial owners of the 2003 A Bonds will not receive physical certificates representing the 2003 A Bonds purchased, but will receive a credit balance on the records of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the 2003 A Bonds, principal of and premium, if any, and interest on the 2003 A Bonds will be paid by U.S. Bank National Association, as Trustee (the “Bond Trustee”), to DTC, which, in turn, will remit such principal and premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2003 A Bonds, as described herein. Interest on the 2003 A Bonds is payable on November 15, 2003 and semiannually thereafter on May 15 and November 15 of each year. The 2003 A Bonds are subject to optional, mandatory and extraordinary redemption prior to their respective maturities, as described herein.

The 2003 A Bonds are limited obligations of the California Health Facilities Financing Authority (the “Authority”), secured under the provisions of the Indenture, as described herein, and will be payable from Loan Repayments made by Stanford Hospital and Clinics (the “Corporation”) and from certain funds held under the Indenture. The obligation of the Corporation to make such payments will be evidenced and secured by an obligation (“Obligation No. 9”) issued under the Master Indenture of Trust, dated as of December 1, 1990, as described herein.

THE 2003 A BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR TO MADE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY PRINCIPAL OF OR THE INTEREST ON THE 2003 A BONDS. THE ISSUANCE OF THE 2003 A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE 2003 A BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 9 AND THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE 2003 A BONDS. THE ISSUANCE OF THE 2003 A 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 WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. 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 of this bond issue. Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision.
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This Official Statement does not constitute an offer to sell the 2003 A Bonds or the solicitation of an offer to buy, nor shall there by any sale of the 2003 A 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 2003 A Bonds and, if given or made, such information or representation must not be relied upon.

The information set forth herein under the caption “THE AUTHORITY” has been furnished by the California Health Facilities Financing Authority (the “Authority”) and the information set forth herein under the caption “THE 2003 A BONDS - Book Entry System” has been furnished by The Depository Trust Company (“DTC”). The information specified above is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by Stanford Hospital and Clinics (the “Corporation”). 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 the adequacy, accuracy or completeness of such information is not guaranteed by, 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 made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Authority, DTC or the Corporation since the date hereof. 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 its 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.


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 caption “BONDHOLDERS’ RISKS” in the forepart of this Official Statement and in Appendix A attached hereto.

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.
TABLE OF CONTENTS

INTRODUCTION ............................................................................................................................... 1
   General .................................................................................................................................... 1
   Purpose of the 2003 A Bonds ................................................................................................. 1
   Stanford Hospital and Clinics ................................................................................................. 1
   Future Affiliations, Acquisitions and Divestitures ................................................................. 2
   Security for the 2003 A Bonds ................................................................................................. 2
   Outstanding Obligations .......................................................................................................... 3
   Additional Indebtedness .......................................................................................................... 3
   Amendment of the Master Indenture ...................................................................................... 3
   Bondholders’ Risks ................................................................................................................. 3
   Litigation and Regulatory Matters .......................................................................................... 4
   Continuing Disclosure ............................................................................................................. 4
   Availability of Documents ...................................................................................................... 4

THE AUTHORITY ............................................................................................................................. 4
   General .................................................................................................................................... 4
   Organization and Membership .............................................................................................. 4
   Outstanding Indebtedness of the Authority ............................................................................. 7

THE 2003 A BONDS .......................................................................................................................... 7
   Description of the 2003 A Bonds ............................................................................................ 7
   Optional Redemption .............................................................................................................. 7
   Extraordinary Redemption .................................................................................................... 8
   Mandatory Redemption ........................................................................................................ 8
   Notice of Redemption: Effect of Redemption ......................................................................... 8
   Book-Entry System ............................................................................................................... 9

DEBT SERVICE REQUIREMENTS ............................................................................................... 11

SECURITY FOR THE 2003 A BONDS .......................................................................................... 12
   General ................................................................................................................................. 12
   The Master Indenture ............................................................................................................ 12
   Reserve Fund ......................................................................................................................... 13
   Leased Facilities ..................................................................................................................... 14

THE PROJECT ............................................................................................................................... 14

ESTIMATED SOURCES AND USES OF FUNDS ........................................................................... 15
TABLE OF CONTENTS
(continued)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>BONDHOLDERS RISKS: General</td>
<td>15</td>
</tr>
<tr>
<td>State of California Budget</td>
<td>15</td>
</tr>
<tr>
<td>Federal and State Legislation</td>
<td>16</td>
</tr>
<tr>
<td>Fraud and Abuse Enforcement</td>
<td>16</td>
</tr>
<tr>
<td>Liability Under State Laws</td>
<td>21</td>
</tr>
<tr>
<td>The Medicare and Medicaid Programs</td>
<td>22</td>
</tr>
<tr>
<td>California Medi-Cal Program</td>
<td>24</td>
</tr>
<tr>
<td>Private Health Plans and Managed Care</td>
<td>25</td>
</tr>
<tr>
<td>Hospital Pricing</td>
<td>26</td>
</tr>
<tr>
<td>Increased Enforcement Affecting Academic Research</td>
<td>26</td>
</tr>
<tr>
<td>Technological Changes</td>
<td>27</td>
</tr>
<tr>
<td>Affiliation, Merger, Acquisition and Divestiture</td>
<td>27</td>
</tr>
<tr>
<td>Antitrust</td>
<td>27</td>
</tr>
<tr>
<td>Competition</td>
<td>28</td>
</tr>
<tr>
<td>Labor Relations</td>
<td>28</td>
</tr>
<tr>
<td>Tax-Exempt Status of the Corporation</td>
<td>29</td>
</tr>
<tr>
<td>Maintenance of Tax-Exempt Status of Interest on the 2003 A Bonds</td>
<td>31</td>
</tr>
<tr>
<td>Indigent Care</td>
<td>32</td>
</tr>
<tr>
<td>Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code</td>
<td>32</td>
</tr>
<tr>
<td>Licensing, Surveys, Investigations and Audits</td>
<td>32</td>
</tr>
<tr>
<td>Environmental Laws and Regulations</td>
<td>32</td>
</tr>
<tr>
<td>Earthquakes</td>
<td>33</td>
</tr>
<tr>
<td>Bankruptcy</td>
<td>33</td>
</tr>
<tr>
<td>Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes</td>
<td>34</td>
</tr>
<tr>
<td>Enforceability of the Loan Agreement</td>
<td>35</td>
</tr>
<tr>
<td>Enforceability of Security Interests</td>
<td>35</td>
</tr>
<tr>
<td>Construction Delays and Cost Overruns</td>
<td>35</td>
</tr>
<tr>
<td>Investments</td>
<td>36</td>
</tr>
<tr>
<td>Professional Liability Claims and General Liability Insurance</td>
<td>36</td>
</tr>
<tr>
<td>Other Risk Factors</td>
<td>36</td>
</tr>
</tbody>
</table>
**TABLE OF CONTENTS**
(continued)

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAX MATTERS</td>
<td>37</td>
</tr>
<tr>
<td>APPROVAL OF LEGALITY</td>
<td>38</td>
</tr>
<tr>
<td>RATINGS</td>
<td>39</td>
</tr>
<tr>
<td>INDEPENDENT ACCOUNTANTS</td>
<td>39</td>
</tr>
<tr>
<td>UNDERWRITING</td>
<td>39</td>
</tr>
<tr>
<td>RELATIONSHIPS AMONG THE PARTIES</td>
<td>39</td>
</tr>
<tr>
<td>MISCELLANEOUS</td>
<td>40</td>
</tr>
<tr>
<td>APPENDIX A - INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS</td>
<td>A-1</td>
</tr>
<tr>
<td>APPENDIX B-1 FINANCIAL STATEMENTS OF THE CORPORATION</td>
<td>B-1-1</td>
</tr>
<tr>
<td>APPENDIX B-2 UNAUDITED CONSOLIDATING FINANCIAL STATEMENTS OF THE CORPORATION AND SUBSIDIARIES</td>
<td>B-2-1</td>
</tr>
<tr>
<td>APPENDIX C - SUMMARY OF PRINCIPAL DOCUMENTS</td>
<td>C-1</td>
</tr>
<tr>
<td>APPENDIX D - PROPOSED FORM OF OPINION OF BOND COUNSEL</td>
<td>D-1</td>
</tr>
<tr>
<td>APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT</td>
<td>E-1</td>
</tr>
</tbody>
</table>
OFFICIAL STATEMENT

$100,000,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
REVENUE BONDS
(STANFORD HOSPITAL AND CLINICS)
2003 SERIES A

INTRODUCTION

General

This Official Statement, including the cover page and Appendices hereto (the “Official Statement”), is provided to furnish information with respect to the sale and delivery of $100,000,000 aggregate principal amount of California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series A (the “2003 A Bonds”) issued by the California Health Facilities Financing Authority (the “Authority”). The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions thereof. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture, dated as of June 1, 2003, between the Authority and U.S. Bank National Association, as Bond Trustee (the “Bond Trustee”), and the Master Indenture, dated as of December 1, 1990 (as amended and supplemented, the “Master Indenture”), between a predecessor of Stanford Hospital and Clinics (the “Corporation”) formerly known as Stanford University Hospital, and BNY Western Trust Company (the “Master Trustee”) (successor to First Interstate Bank LTD.). See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Terms” for definitions of the words and terms used herein. Simultaneously with the issuance of the 2003 A Bonds, the Authority will issue $150,000,000 aggregate principal amount of California Health Facilities Financing Authority Adjustable Rate Revenue Bonds (Stanford Hospital and Clinics), 2003 Series B, 2003 Series C and 2003 Series D Bonds (the “2003 Variable Rate Bonds”) which will be auction rate bonds. The 2003 A Bonds and 2003 Variable Rate Bonds together are referred to herein as the “2003 Bonds.”

Purpose of the 2003 A Bonds

The proceeds of the 2003 A Bonds will be used to: (i) pay the costs of acquiring, constructing and equipping certain improvements to the Corporation’s facilities (the “Project”); (ii) provide for payment of interest on the 2003 A Bonds for a period of not exceeding the 36 months following the date of their delivery (the “Closing Date”); (iii) make a deposit to the credit of the Reserve Fund under the Indenture equal to the Reserve Fund Requirement; and (iv) pay the costs of issuing the 2003 A Bonds. See “THE PROJECT” AND “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Stanford Hospital and Clinics

The Corporation operates Stanford Hospital and other facilities offering strategic clinical services including cardiac services, cancer treatment, solid organ transplantation, neuroscience services and other tertiary and quaternary care to adult patients. The Corporation is the principal teaching affiliate of the Stanford University School of Medicine in providing primary and specialty health services to adults. The Corporation 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 translation of basic research insights into medical treatments is a strategic priority of the close collaboration of the Corporation and Stanford University School of Medicine.
Stanford Hospital is a 594 licensed-bed tertiary, quaternary and specialty teaching hospital (the "Hospital"). The Corporation also operates 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 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. In its planning, development and marketing, the Corporation emphasizes four strategic clinical services-cardiac services, cancer treatment, solid organ transplantation and neurosciences (the “Strategic Clinical Services”). In 2002, the Hospital treated more than 38,000 patients in its emergency room, admitted more than 20,000 inpatients and recorded more than 280,000 outpatient visits and other non-presenting encounters. From these patient care activities, it earned operating revenues of more than $914 million, generating an operating margin of $4.5 million in 2002. At August 31, 2002, its total assets were $628 million, total liabilities were $449 million and nets assets were $179 million.

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

Only the Corporation is responsible for the payment of principal of, redemption premium, if, any, and interest (“debt service”) on the 2003 A Bonds. Neither Stanford University, nor any other institution (except the Corporation), is obligated to pay such debt service. The University and the Corporation are not co-guarantors of the debt of each other, and both the Corporation and the University are separately rated by the rating agencies.

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

Future Affiliations, Acquisitions and Divestitures

The Corporation is currently considering one or more of the following types of transactions (“Transactions”): (i) affiliation with other health care facilities or entities not now related to it; (ii) sale or lease of one or more of its facilities (other than Stanford Hospital) or subsidiaries to an unrelated entity; and (iii) acquisition of facilities not now owned by the Corporation. Transactions may be announced or completed at any time, and if any such Transaction is completed, it could result in the Corporation assuming or incurring additional indebtedness. Any such Transaction and the indebtedness, if any, incurred in connection with such Transaction must comply with the Master Indenture.

Security for the 2003 A Bonds

The 2003 A Bonds are limited obligations of the Authority, secured under the provisions of the Indenture, and will be payable solely from payments (the “Loan Repayments”) made by the Corporation under the Loan Agreement, dated as of June 1, 2003 (the “Loan Agreement”), between the Authority and the Corporation, from payments made by the Corporation on Obligation No. 9 (hereinafter defined), from certain funds held under the Indenture, including the Reserve Fund and, in certain circumstances, from moneys realized from the exercise of remedies under the Master Indenture. The amounts required to be paid under the Loan Agreement and Obligation No. 9 are required to be equal to debt service on the 2003 A Bonds and other amounts specified therein. See “SECURITY FOR THE 2003 A BONDS.”

The obligation of the Corporation under the Loan Agreement will be further evidenced and secured by an obligation (“Obligation No. 9”) to be issued under the Master Indenture, as supplemented and amended by the Supplemental Master Indenture for Obligation No. 9, dated as of June 1, 2003 (the “Supplement”). Obligation No. 9, the outstanding Obligations relating to other indebtedness (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, as described below under “SECURITY FOR THE 2003 A BONDS.” Currently, the Corporation is the only Member of the Obligated Group created pursuant to the Master Indenture.

### Outstanding Obligations

Upon issuance of the 2003 A Bonds, there will be five Obligations outstanding under the Master Indenture: Obligation No. 9 described above; Obligation No. 5, which evidences and secures the obligation of the Corporation to make payments with respect to the California Health Facilities Financing Authority Revenue Bonds (UCSF-Stanford Health Care), 1998 Series B (the "1998 B Bonds"), which Obligation was assumed by the Corporation on April 1, 2000; and three Obligations, Obligation Nos. 6, 7 and 8 (the “LPCH Obligations”), all of which secure the obligations of Lucile Salter Packard Children’s Hospital at Stanford (“LPCH”) with respect to certain certificates of participation (the “1993 LPCH Certificates”) executed and delivered for the benefit of LPCH and a liquidity facility and a rate exchange agreement related thereto which were created prior to the withdrawal of LPCH from the Obligated Group. LPCH withdrew from the Obligated Group in March of 2003. See "SECURITY FOR THE 2003 A BONDS" and APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS – LPCH Obligations.”

### Additional Indebtedness

No additional bonds may be issued under the Indenture. However, as described below under “SECURITY FOR THE 2003 A BONDS,” the Corporation is permitted to incur additional indebtedness under the Master Indenture, subject to the financial tests and limitations set forth therein.

For a description of certain events that could require the incurrence of additional indebtedness of the Corporation, see “Future Affiliations, Acquisitions and Divestitures” above and “SERVICES, FACILITIES AND OPERATIONS – Principal Patient Services – Additional Facility Needs” in Appendix A attached hereto.

### Amendment of the Master Indenture

An amendment to the Master Indenture relating to the definition of Income Available for Debt Service (the “Amendment”) will become effective simultaneously with the delivery of the 2003 A Bonds and Obligation 9. The Amendment will require that the following items be excluded from the calculation of Income Available for Debt Service: (i) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles; (ii) any reappraisal, revaluation or write-up or write-down of assets or liabilities, including without limitation termination payments with respect to Interest Rate Exchange Agreements and other interest rate swap and similar agreements; (iii) unrealized gains or losses on marketable securities held by a Member; and (iv) nonrecurring items that do not involve the receipt, expenditure or transfer of assets. A majority in principal amount of Obligations outstanding may vote in favor of the Amendment. The Underwriters, during the time they own the 2003 A Bonds prior to their sale to the public, will vote such Bonds in favor of the Amendment. Each purchaser of 2003 A Bonds shall, by such purchase, be deemed to have consented to the Amendment.

### Bondholders’ Risks

There are risks associated with the purchase of the 2003 A Bonds. See “BONDHOLDERS’ RISKS” for a discussion of certain of these risks, including potential termination of the Corporation’s participation in the Medicare and Medi-Cal programs.
Litigation and Regulatory Matters

For description of certain litigation and regulatory actions that could adversely affect the Corporation, see “BONDHOLDERS’ RISKS” herein and “SUMMARY OF FINANCIAL INFORMATION – Sources of Revenue” and “Accreditation, Licensure, Medicare and Medicaid Certification” in Appendix A attached hereto.

Continuing Disclosure

No financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the 2003 A Bonds, and no such information has been provided. The Corporation has undertaken all responsibility for any continuing disclosure to the holders of the 2003 A Bonds as described below, and the Authority has no liability to such holders or any other person with respect to Rule 15c 2-12 promulgated by the Securities and Exchange Commission.

Pursuant to a Continuing Disclosure Agreement, to be dated as of the Closing Date (the “Continuing Disclosure Agreement”), between the Corporation and U.S. Bank National Association, as Bond Trustee and as dissemination agent (the “Dissemination Agent”), the Corporation will agree to provide: (i) annual financial information (as described in the Continuing Disclosure Agreement) not later than 150 days following the end of each fiscal year of the Corporation, commencing with the fiscal year of the Corporation ending August 31, 2003; (ii) notices of certain events enumerated in the Continuing Disclosure Agreement relating to the 2003 A Bonds, if material; and (iii) quarterly unaudited financial information (as specified in the Continuing Disclosure Agreement) not later than 60 days following the end of each of the fiscal quarters of the Corporation, commencing with the fiscal quarter of the Corporation ending November 30, 2003. The continuing disclosure requirement will be effective for the quarter ending May 31, 2003. For the May, 2003 quarter the Corporation will be required to provide information to bondholders within 75 days of quarter end. All subsequent quarterly financial statement filings will be made within 60 days of quarter end. For a description of the contents of the annual financial information, the events requiring notices and the contents of the quarterly financial information, see APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Availability of Documents

Copies of the Master Indenture, the Supplement, the Indenture, the Loan Agreement and Obligation No. 9, each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the principal 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 organized and existing under and by virtue of the Act. The stated intent of the California legislature in enacting the Act, was to provide financing of 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 by 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.
Members of the Authority serve without compensation but are entitled to reimbursement for necessary expenses incurred in the discharge of their duties. The Chairman of the Authority appoints the Executive Director.

The current members of the Authority are:

PHILIP ANGELIDES, State Treasurer, Chairman and Ex Officio Member of the Authority. Residence: Sacramento, California. Background: California State Treasurer Philip Angelides has made his mark in the civic life of California as an effective spokesperson on public issues and as a successful and innovative businessman. Mr. Angelides is a graduate of Harvard University and a Coro Foundation Fellow. He served for eight years in California government before entering the private sector in 1984. In 1986, Mr. Angelides formed his own investment and management business, which quickly earned a reputation for economic success and innovation. His company received national attention for its environmentally responsible community development and helped spark a national dialogue on better ways to plan and build cities. Mr. Angelides has been active in the civic life of his community and state for 25 years.

STEVE WESTLY, State Controller and Ex Officio Member of the Authority. Residence: Menlo Park, California. Background: As State Controller, Mr. Westly is a member of more than 50 boards and commissions, including the Public Employees Retirement Board, the State Teachers Retirement Board, the Franchise Tax Board, the Board of Equalization, the State Lands Commission and the major housing commissions of the state. Prior to being elected State Controller, Mr. Westly’s career included business, education and government. In the private sector, he guided the online auction company, eBay, through a period of rapid growth, including serving as a senior vice-president of marketing, business development, mergers and acquisitions and international operations. Before becoming active in the Internet sector, Mr. Westly served for five years on the faculty at Stanford University’s Graduate School of Business, teaching public management. Mr. Westly also has worked on Capitol Hill and for the U.S. Department of Energy. Mr. Westly has a Bachelor’s degree and Master’s degree from Stanford University.

STEVE PEACE, State Director of Finance and Ex Officio Member of the Authority. Residence: El Cajon, California. Background: Mr. Peace spent twenty years in the California State Legislature, serving in the Assembly from 1982 to 1994 and in the Senate until November 2002. While serving in the Legislature, Mr. Peace served as Chairman of several committees, including the Senate Budget and Fiscal Review, Privacy, Energy, Utilities, and Communications committees, the Joint Legislative Budget Committee, and the Assembly Committee on Finance, Insurance and Bonded Indebtedness. Mr. Peace was also the CFO and co-founder of Four Square Productions, a multimedia production company in San Diego. Mr. Peace left Four Square Productions in 2002 to become the CEO of KTEntertainment, a motion picture and television production venture based in Westwood, California. Mr. Peace attended the University of California, Davis for two years and graduated from the University of California at San Diego with a degree in Political Science.

HARRY BISTRIN, Vice Chairman. Term expires March 31, 2004. 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.

SUMI SOUSA, Member. Term expires March 31, 2007. Residence: Sacramento, California. Background: Ms. Sousa earned a bachelor’s degree in History from the University of California, Los Angeles. She currently serves as Special Assistant to the Speaker of the California Assembly. 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 the health and human services budgets for the City and County of San Francisco. She served on the staff of the California Revenue and Taxation Committee from 1992 to 1994 and was health policy advisor to Assemblyman Phillip
Isenberg, Assemblyman Johan Klehs and Senator Herschel Rosenthal. Most recently, Ms. Sousa was Deputy Director for Management & Finance to the San Francisco Public Administrator/Public Guardian.

JOHN M. WHITELAW, M.D., Member. Term expires March 31, 2004. Residence: Sacramento, California. Background: Medical degree from Oregon Health Sciences University and specialty training in Obstetrics and Gynecology at Letterman General Hospital in San Francisco. Dr. Whitelaw is currently Medical Director, Clinical Integration, at Sutter Health, an integrated healthcare system in Northern California, and is the immediate past President of the California Medical Association (2002-2002). In Sacramento, Dr. Whitelaw started with the MedClinic, and in 1991 joined Sutter Medical Group, where he was Board Chair from 1994 until 2000 and President/CEO from 1995 until March 2002. At Sutter Health, he has served on the System Leader Council and was Chair of the Sutter Physicians Alliance from 1996 to 1998. He currently is a member of the Sutter Health Public Policy Council. Dr. Whitelaw has served on the California Medical Association Board of Trustees since 1994 and was Chair of the Board in 2000 and 2001. He chaired the CMA Council on Legislation from 1993 to 1996 and was the CMA District XI Chair from 1986 to 1990. In addition, he has represented the CMA as a delegate to the American Medical Association and served on numerous other CMA commissions, committees and councils. He is a member of the American College of Obstetrics and Gynecology and the American Medical Association, and currently represents the American College of OB/GYN at the AMA House of Delegates. He also is a member of the Pacific Coast OB/GYN Society.

JUDITH N. FRANK, Member. Term expires March 31, 2004. Residence: Santa Monica, California. Background: Masters degree in Finance from the University of California 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 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.

RUDY BERMUDEZ, Member. Term expires March 31, 2006. Residence: Norwalk, California. Background: Bachelors degree in Sociology from the University of California Los Angeles and is a Masters degree candidate in Public Administration from California State University Long Beach where he received a graduate certificate in Employee/Employer Relations, Human Services and Personnel. Mr. Bermudez is a former member of the Medical Board of California. Mr. Bermudez currently serves in the California State Assembly and is a former Vice-Mayor of the City of Norwalk. He is a member of the California Correctional Peace Officers, Norwalk Knights of Columbus, Community Council, League of United Latin American Citizens and P.T.A.

THEODORE N. HARITON, M.D., Member. Term expires March 31, 2004. Residence: Tarzana, California. Background: Bachelors of arts degree from University of Michigan and a Doctor of Medicine from the University of Michigan Medical School. Dr. Hariton has been a practicing doctor of obstetrics and gynecology for 40 years. He is a Diplomat of the American Board of Obstetrics and Gynecology, and a Fellow of both the American College of Obstetrics and Gynecology, and the Los Angeles Obstetrics and Gynecology Society. Dr. Hariton formerly served on the Board of Councilors of the University of Southern California School of Pharmacy. He owns a private practice in the Encino/Tarzana area which he established in 1961.

Executive Director, TERRENCE L. PARTINGTON. Terrance L. Partington was appointed Executive Director of the Authority in March, 2003. Mr. Partington served as the Deputy Executive Director of the Authority from 1989 to 2003, and concurrently, as the Deputy Executive Director of the California Educational Facilities Authority from 1996 to 2003. Previously, Mr. Partington served as the Operations Manager of the Authority from 1985 to 1989, and as an Internal Auditor, Field Auditor and Accounting Section Chief for the California State Teachers Retirement System (CALSTRS) from 1976 to 1985. Mr. Partington is a past Board Director for both the National Council of Health Facilities Finance Authorities (NCHFFA) and the National Association of Higher Educational Facilities Authorities (NAHEFA). Mr. Partington earned a bachelor’s degree in Business Administration from California State University, Sacramento.
Financial Advisors. PricewaterhouseCoopers LLP, Sacramento, California, serves as the financial advisor to the Authority. Public Financial Management, Inc., San Francisco, California, serves as the Authority’s financial and pricing advisor.

Outstanding Indebtedness of the Authority

As of March 31, 2003, the Authority has issued obligations aggregating $14,645,889,017 in original principal amount, and had outstanding obligations in the aggregate principal amount of $6,362,495,074.

THE 2003 A BONDS

Description of the 2003 A Bonds

The 2003 A Bonds will be dated their date of delivery, will bear interest from their dated date at the rates, and will mature, subject to the redemption provisions described below, in the amounts and on the dates set forth on the cover page of this Official Statement. Interest at the rates set forth on the cover page of this Official Statement will be payable on November 15, 2003 and semiannually thereafter on May 15 and November 15 of each year (each, an “Interest Payment Date”) until maturity or prior redemption. Interest on the 2003 A Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The 2003 A Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2003 A Bonds. Ownership interests in the 2003 A Bonds may be purchased in book-entry form only. See “THE 2003 A BONDS – Book-Entry System.” So long as Cede & Co. is the registered owner of the 2003 A Bonds, principal of, premium, if any, and interest on the 2003 A Bonds shall be payable in the manner described below under the caption "Book-Entry System."

In the event use of the book-entry system is discontinued, payment of interest on the 2003 A Bonds will be made by check mailed on each Interest Payment Date 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 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) or, at the written request of any Holder of at least one million dollars ($1,000,000) in aggregate principal amount of 2003 A Bonds, by wire transfer to an account within the United States designated by the Holder not later than the Record Date. Payment of the principal or redemption price of 2003 A Bonds will then be payable upon presentation and surrender thereof at the Principal Office of the Bond Trustee.

Redemption

Optional Redemption. The 2003 A Bonds are subject to redemption prior to their respective maturities at the option of the Authority (which option is required to be exercised upon the request of the Corporation), in whole or in part, in such amounts and such maturities as may be specified by the Corporation (or, if the Corporation fails to designate such maturities, in inverse order of maturity), and by lot among 2003 A Bonds with the same maturity and in Authorized Denominations, on any date on and after November 15, 2013, at the following Redemption Prices (expressed as a percentage of the principal amount of 2003 A Bonds called for redemption), plus interest accrued to the date fixed for redemption:

<table>
<thead>
<tr>
<th>Redemption Period (Both Dates Inclusive)</th>
<th>Redemption Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 15, 2013</td>
<td>100%</td>
</tr>
</tbody>
</table>
**Extraordinary Redemption.** The 2003 A Bonds are subject to redemption prior to maturity, at the option of the Authority (which option is required to be exercised upon Request of the Corporation, in whole or in part (and, if in part, in such amounts and maturities as may be specified by the Corporation, or, if the Corporation fails to specify such maturities, in inverse order of maturity) and by lot among 2003 A Bonds having the same maturity and in Authorized Denominations, on any date specified by the Corporation, from insurance or condemnation proceeds or proceeds of a sale, lease or other disposition of all or a portion of the facilities financed or refinanced by the proceeds of the 2003 A Bonds deposited in the Special Redemption Account, at a Redemption Price equal to 100% of the principal amount of the 2003 A Bonds called for redemption, plus interest accrued to the date fixed for redemption, without premium.

**Mandatory Redemption.** The 2003 A Bonds maturing on November 15, 2023 (the “2023 Term Bonds”) are subject to redemption prior to their respective stated maturities, beginning on November 15, 2018, in part, by lot from Mandatory Sinking Account Payments deposited in the Sinking Accounts, at a Redemption Price equal to 100% of the principal amount of the 2003 A Bonds called for redemption, plus interest accrued thereon to the date fixed for redemption, without premium, as set forth below.

<table>
<thead>
<tr>
<th>Year</th>
<th>4.70% Term Amount</th>
<th>5.00% Term Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$210,000</td>
<td>$6,680,000</td>
</tr>
<tr>
<td>2019</td>
<td>215,000</td>
<td>7,020,000</td>
</tr>
<tr>
<td>2020</td>
<td>215,000</td>
<td>6,885,000</td>
</tr>
<tr>
<td>2021</td>
<td>215,000</td>
<td>7,735,000</td>
</tr>
<tr>
<td>2022</td>
<td>215,000</td>
<td>7,635,000</td>
</tr>
<tr>
<td>2023*</td>
<td>215,000</td>
<td>3,110,000</td>
</tr>
</tbody>
</table>

**Notice of Redemption: Effect of Redemption.** Notice of redemption shall be mailed by first-class mail by the Bond Trustee not less than 30 nor more than 60 days prior to the redemption date, to the respective registered owners of any 2003 A Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. So long as the 2003 A Bonds are held under DTC’s book entry system, redemption notices will be sent to Cede & Co., nominee of DTC, as the registered owner of the 2003 A Bonds.

Failure by the Bond Trustee to mail notice of redemption to any one or more registered owners of any 2003 A Bonds designated for redemption shall not affect the validity or sufficiency of the proceedings for redemption with respect to the registered owners to whom such notice was mailed.

Any notice of 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 as notice of such redemption was given.

Notice of redemption having been duly given and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2003 A 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 2003 A 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 2003 A Bonds so called for redemption shall cease to accrue, said 2003 A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said 2003 A Bonds shall have no rights.

*Maturity*
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.

**Book-Entry System**

DTC will act as securities depository for the 2003 A Bonds. The 2003 A 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 maturity of the 2003 A Bonds, each in the aggregate principal amount of such maturity, and will be deposited
with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York
Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the
Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial
Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act
of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues,
corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s
participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among
Direct Participants of sales and other securities transactions in deposited securities, through electronic
computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need
for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities
brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a
wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned
by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation,
Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing
Corporation, (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock
Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc.
Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and
dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship
with a Direct participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s
highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange
Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 2003 A Bonds under the DTC system must be made by or through Direct Participants.
which will receive a credit for the 2003 A Bonds on DTC’s records. The ownership interest of each actual
purchaser of each 2003 Bond (the “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 interest in the 2003 A 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 2003 A Bonds, except in the
event that use of the book-entry system for the 2003 A Bonds is discontinued.

To facilitate subsequent transfers, all 2003 A 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 2003 A 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 Securities: DTC’s records reflect only the identity of the Direct
and Indirect Participants to whose accounts such 2003 A Bonds are credited, which may or may not be the
Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their
holdings on behalf of their customers.
Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2003 A 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 such other DTC nominee) will consent or vote with respect to the 2003 A Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC will mail an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2003 A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments with respect to the 2003 A 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 payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Corporation, the Authority or the Bond Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, sinking fund and interest payments 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2003 A 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, 2003 A Bond certificates are required to be printed and delivered as described in the Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2003 Bond certificates will be printed and delivered as described in the Indenture.

The Corporation and the Authority cannot and do not give any assurances that DTC (or its nominee) will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners payments of principal of, interest and premium, if any, on the 2003 A 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 Corporation nor the Authority are responsible or liable for the failure of DTC or any DTC Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2003 A Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the 2003 A Bonds, payment of principal, interest and other payments on the 2003 A Bonds to DTC Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such 2003 A Bonds and other related transactions by and between DTC, the DTC Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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 or maturity or mandatory sinking account redemption, and interest on the 2003 A Bonds, the debt service on the 1998 B Bonds and the total debt service.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1,756,467</td>
<td>1,878,792</td>
<td>12,118,250</td>
<td>15,753,509</td>
</tr>
<tr>
<td>2004</td>
<td>4,718,868</td>
<td>5,047,500</td>
<td>12,116,000</td>
<td>21,882,368</td>
</tr>
<tr>
<td>2005</td>
<td>4,718,868</td>
<td>5,047,500</td>
<td>12,116,500</td>
<td>21,882,868</td>
</tr>
<tr>
<td>2006</td>
<td>3,690,000</td>
<td>5,047,500</td>
<td>12,119,250</td>
<td>25,575,500</td>
</tr>
<tr>
<td>2007</td>
<td>4,320,000</td>
<td>5,047,500</td>
<td>12,118,750</td>
<td>26,069,518</td>
</tr>
<tr>
<td>2008</td>
<td>3,975,000</td>
<td>5,047,500</td>
<td>12,119,750</td>
<td>25,576,430</td>
</tr>
<tr>
<td>2009</td>
<td>4,615,000</td>
<td>5,047,500</td>
<td>12,116,750</td>
<td>26,066,175</td>
</tr>
<tr>
<td>2010</td>
<td>4,805,000</td>
<td>5,047,500</td>
<td>12,119,500</td>
<td>26,069,788</td>
</tr>
<tr>
<td>2011</td>
<td>4,485,000</td>
<td>5,047,500</td>
<td>12,117,250</td>
<td>25,572,365</td>
</tr>
<tr>
<td>2012</td>
<td>5,205,000</td>
<td>5,047,500</td>
<td>12,114,750</td>
<td>26,065,615</td>
</tr>
<tr>
<td>2013</td>
<td>4,970,000</td>
<td>5,047,500</td>
<td>12,116,500</td>
<td>25,572,115</td>
</tr>
<tr>
<td>2014</td>
<td>5,715,000</td>
<td>5,047,500</td>
<td>12,111,750</td>
<td>26,063,865</td>
</tr>
<tr>
<td>2015</td>
<td>5,505,000</td>
<td>5,047,500</td>
<td>12,115,250</td>
<td>25,571,615</td>
</tr>
<tr>
<td>2016</td>
<td>6,275,000</td>
<td>5,047,500</td>
<td>12,116,000</td>
<td>26,067,115</td>
</tr>
<tr>
<td>2017</td>
<td>6,090,000</td>
<td>5,047,500</td>
<td>12,118,500</td>
<td>26,068,865</td>
</tr>
<tr>
<td>2018</td>
<td>6,890,000</td>
<td>5,047,500</td>
<td>12,117,000</td>
<td>26,068,145</td>
</tr>
<tr>
<td>2019</td>
<td>7,235,000</td>
<td>5,047,500</td>
<td>12,116,000</td>
<td>26,069,520</td>
</tr>
<tr>
<td>2020</td>
<td>7,100,000</td>
<td>5,047,500</td>
<td>12,117,250</td>
<td>25,572,750</td>
</tr>
<tr>
<td>2021</td>
<td>7,950,000</td>
<td>5,047,500</td>
<td>12,119,750</td>
<td>26,069,065</td>
</tr>
<tr>
<td>2022</td>
<td>7,850,000</td>
<td>5,047,500</td>
<td>12,118,000</td>
<td>25,572,960</td>
</tr>
<tr>
<td>2023</td>
<td>3,325,000</td>
<td>5,047,500</td>
<td>12,116,000</td>
<td>26,054,105</td>
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<tr>
<td>2024</td>
<td>13,465,790</td>
<td>12,115,500</td>
<td>25,581,290</td>
<td></td>
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<tr>
<td>2025</td>
<td>13,976,400</td>
<td>12,115,500</td>
<td>26,091,900</td>
<td></td>
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<tr>
<td>2026</td>
<td>13,960,090</td>
<td>12,120,000</td>
<td>26,080,090</td>
<td></td>
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<tr>
<td>2027</td>
<td>13,633,685</td>
<td>12,117,750</td>
<td>25,751,435</td>
<td></td>
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<tr>
<td>2028</td>
<td>14,007,280</td>
<td>12,113,000</td>
<td>26,120,280</td>
<td></td>
</tr>
<tr>
<td>2029</td>
<td>13,757,320</td>
<td>12,119,750</td>
<td>25,877,070</td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td>14,003,995</td>
<td>12,116,250</td>
<td>26,120,245</td>
<td></td>
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<tr>
<td>2031</td>
<td>13,830,480</td>
<td>12,111,750</td>
<td>25,942,230</td>
<td></td>
</tr>
<tr>
<td>2032</td>
<td>14,050,235</td>
<td>12,115,000</td>
<td>26,165,235</td>
<td></td>
</tr>
<tr>
<td>2033</td>
<td>14,149,800</td>
<td>12,116,000</td>
<td>26,265,800</td>
<td></td>
</tr>
<tr>
<td>2034</td>
<td>14,032,540</td>
<td>12,120,000</td>
<td>26,152,540</td>
<td></td>
</tr>
<tr>
<td>2035</td>
<td>14,105,185</td>
<td>12,120,000</td>
<td>26,225,185</td>
<td></td>
</tr>
<tr>
<td>2036</td>
<td>14,161,005</td>
<td>12,120,000</td>
<td>26,281,005</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$100,000,000</td>
<td>$62,080,755</td>
<td>$289,362,597</td>
<td>$351,388,250</td>
</tr>
</tbody>
</table>

* Interest assumed at 3.365% based upon the Rate Exchange Agreements in effect.
SECURITY FOR THE 2003 A BONDS

General

The 2003 A 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, premium, if any, and interest on the 2003 A Bonds when such become due. The Authority will assign its right, title, and interest in the Loan Agreement (except for any deposits to the applicable 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 indemnified pursuant thereto and the right to receive certain notices) and Obligation No. 9 to the Bond Trustee. The obligation of the Corporation to make the Loan Repayments will be further evidenced and secured by Obligation No. 9.


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. 9 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 by the Corporation and Members of the Obligated Group thereunder. See “Outstanding Obligations Under the Master Indenture” below. All Members of the Obligated Group are required to make payments on Obligation No. 9 in amounts sufficient to pay the principal of, redemption premium, if any, and interest on the 2003 A 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. 9, the Corporation will have issued and there will be outstanding Obligations in the aggregate principal amount of $471,465,000. Obligation No. 5 evidences and secures the obligation of the Corporation with respect to the 1998 B Bonds $183,465,000 of which are currently outstanding. The LPCH Obligations, which were created prior to the withdrawal of LPCH from the Obligated Group, evidence and secure the obligations of the Corporation with respect to the 1993 LPCH Certificates and a liquidity facility and an interest rate exchange agreement related thereto. LPCH has executed a reimbursement agreement with the Corporation under which LPCH has agreed to reimburse the Corporation for any payments made on its behalf (the “LPCH Reimbursement Agreement”). The obligations of LPCH under the LPCH Reimbursement Agreement are secured by a security interest in the gross revenues of LPCH. Upon completion of an upcoming financing and the effectiveness of its master indenture, LPCH will secure its obligation under the LPCH Reimbursement Agreement with an obligation issued under its master indenture. The Corporation is also obligated with respect to a letter of credit issued by a commercial bank for the account of the Corporation in favor of the third party administrator of certain workers compensation claims of the Corporation. The reimbursement obligation of the Corporation for this letter of credit is unsecured. For a description of the relationship of the Corporation and LPCH, see Appendix A attached hereto.

Security for Obligations. All Obligations issued and outstanding under the Master Indenture, including Obligation No. 9 that evidences and secures the Corporation’s obligations with respect to the 2003 Bonds, 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 (collectively, the “Security Interests”). For a description of the limitations on the enforceability of the Master Indenture, see “BONDHOLDERS’ RISKS – Enforceability of the Master Indenture, the Loan Agreement, Obligation No. 9 and the Security Interests” 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 will be 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, is 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 an account control agreement (an “Account Control Agreement”) to create this agency relationship. See “Supplemental Master Indenture for Obligation No. 9 – 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 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 additional indebtedness, 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.

Reserve Fund

General. The Indenture creates a Reserve Fund (the “Reserve Fund”) exclusively for the benefit of the 2003 A Bonds. Moneys in the Reserve Fund shall be used and withdrawn by the Bond Trustee solely for the purpose of making up any deficiency in the Interest Fund or Principal Fund or for the redemption of all 2003 A Bonds then Outstanding. On the Closing Date, a portion of the proceeds of the 2003 A Bonds, equal to the Reserve Fund Requirement, will be deposited in the Reserve Fund.

Deposit of Reserve Fund Facility. In lieu of or in substitution for the cash and investments in the Reserve Fund, the Corporation may deliver to the Bond Trustee, for deposit to the Reserve Fund, a letter of credit, surety or bond, insurance policy, agreement or other similar instrument issued by an institution whose senior debt is, or obligations secured by its letters of credit or guarantees are, rated at least investment grade from each Rating Agency then maintaining a rating on the 2003 A Bonds (a “Reserve Fund Facility”). For a description of certain other requirements of a Reserve Fund Facility, see APPENDIX C – “SUMMARY OF THE PRINCIPAL DOCUMENTS – The Indenture – Establishment of Funds and Accounts – Funding and Application of Reserve
Fund.” In the event that the Corporation delivers a Reserve Fund Facility, the Bond Trustee is required to release a like sum in cash or investments or a combination to the Corporation, except that, to the extent that the funds so released constitute proceeds of the 2003 A Bonds, the use of such funds is subject to an approving opinion of bond counsel.

Release of Reserve Fund. In the event that the 2003 A Bonds are rated at least A+ (or equivalent) by each Rating Agency then maintaining a rating on the 2003 A Bonds, the Corporation may request that the Bond Trustee transfer the moneys and investments in the Reserve Fund to the Corporation and the Bond Trustee is required to comply with such request. Should the rating on the 2003 A Bonds later fall below such level, the Corporation is required to fund the Reserve Fund again in an amount equal to the Reserve Fund Requirement.


Leased Facilities

A substantial portion of the facilities used by the Corporation in its business, including, but not limited to, Stanford Hospital (the “Leased Property”), are leased to the Corporation by Stanford University pursuant to a series of leases (the “Facilities Leases”). Under the Facilities Leases, all of which expire later than the final maturity date of the 2003 Bonds, the Corporation pays $1.00 per year as rent with certain minor exceptions. The original deed that granted the land to create the University prevents the University from selling or mortgaging such land (the “Transfer Restriction”). Therefore, the Leased Property can only be leased and cannot be mortgaged to secure Bonds or Obligations. Although the Transfer Restricition affectively bars sale or mortgage of the Leased Property, any attempted transfer of such Lease Property would be subject to the provisions of the Master Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – The Master Indenture – Consolidation, Merger, Acquisition, Sale or Conveyance.”

THE PROJECT

The Project consists of the construction of a new outpatient facility, containing approximately 220,000 square feet (the “Outpatient Facility”), which will provide cancer treatment and other services, the renovation of certain existing facilities (the “Renovation”) and the acquisition and installation of equipment for both existing facilities and the Outpatient Facility (“Equipment”). The Renovation portion of the Project includes both modification and upgrading of existing space and seismic upgrading to comply with State of California regulations.
**ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the estimated sources and uses of funds related to the 2003 Bonds.

**Sources**

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<tr>
<td>Principal</td>
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<tr>
<td>Total</td>
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**Uses**

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<tr>
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<tr>
<td>Total</td>
<td>$ 105,707,934</td>
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</table>

<sup>(1)</sup> See “THE PROJECT.”

<sup>(2)</sup> Equals the Reserve Fund Requirement for the 2003 Bonds.

<sup>(3)</sup> Equal to interest on the 2003 A Bonds for the 20 months following the Closing Date, which is the estimated completion date of the Project.

<sup>(4)</sup> The Underwriters’ Discount is equal to 6.95% of the public offering price of the 2003 A Bonds.

<sup>(5)</sup> Costs of issuance of the Bonds includes legal fees and expenses, including those of counsel to the Corporation and Bond Counsel, printing costs, fees of the rating agencies, trustees and the Authority, accounting fees, and certain other costs of issuance.

**BONDBHOLDERS RISKS**

The purchase of the 2003 A Bonds involves risks that are discussed below and elsewhere in this Official Statement. Each prospective purchaser of the 2003 A Bonds should make an independent evaluation of all of the information presented in this Official Statement to make an informed investment decision.

**General**

As set forth under “SECURITY FOR THE 2003 A BONDS” above, the Corporation is obligated to pay when due the Loan Repayments that are required to be at least equal to the principal of, premium (if any), and interest, on the Series 2003 A Bonds. The Corporation’s obligation to make the Loan Repayments will be further evidenced and secured by the Obligation No. 9 issued under the Master Indenture. All Obligations issued and Outstanding under the Master Indenture are secured by the Security Interests. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the Loan Repayments and hence the debt service on the 2003 A Bonds.

The future financial condition of the Corporation could be adversely affected by, among other things, legislation, regulatory actions, increased competition from other health care providers, demand for health care services, the impact of technological and demographic changes on the ability of the Corporation to attract patients, confidence of physicians and the public in the Corporation, economic trends and events, malpractice claims and other litigation, competition, changes in the rates, timing, and methods of payment for the services of health care providers as well as increased costs and changes in government regulations and enforcement positions, including Internal Revenue Service (the "IRS") and State and local taxing authorities policy regarding tax exemption.

**State of California Budget**

Since early 2001, the State of California has faced severe financial challenges, which are expected to continue for several years. California experienced an economic recession in 2001 and, in 2002 and 2003, a sluggish recovery attributable to weakened exports and, most particularly, large stock market declines (with attendant declines in stock option values and capital gains realizations). These adverse fiscal and economic factors have resulted in a serious erosion of general fund tax revenues. The bulk of the revenue declines were
from personal income taxes. These factors resulted in a shortfall between the state’s revenues and spending demands for the 2001-02 fiscal year and an expected shortfall between its anticipated revenues and spending demands for the current fiscal year. At present, the expected state of California General Fund deficit for the 2002-03 fiscal year exceeds $38 billion. Reduction of the shortfall for the 2002-03 fiscal year will require a combination of expenditure reductions, revenue enhancements and budgetary actions, such as fund transfers, expenditure deferrals and fund shifts. Fiscal experts and political leaders in the state acknowledge that the current fiscal year’s budget left a gap between the expected level of tax and other continuing revenues and projected expenditures under current programs for future years. The state contributes directly and indirectly to a number of the Corporation’s activities through, for example, the Medi-Cal program. The fiscal year 2003-04 budget proposed by the Governor includes significant cuts in state Medi-Cal spending.

California’s financial challenges may negatively affect the Corporation in a number of ways. These include but are not limited to the factors identified below. Medi-Cal reimbursement rates may be reduced. See “Medi-Cal” herein. The number of indigent patients seeking services from the Corporation may increase. See “Indigent Care” herein. In addition, the state may seek to generate revenue by increasing tax rates, changing the treatment of income currently treated as tax-exempt or increasing the frequency of regulatory investigations and resulting penalty actions.

Federal and State Legislation

The Corporation is subject to a wide variety of federal, state and local regulatory actions and legislative and policy changes which could have a significant impact on the Corporation. Federal, state and local legislative bodies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of the Corporation, including but not limited to the Medicare and Medi-Cal programs. In addition, such entities may enact legislation or adopt regulations which impose significant new burdens on the operations of the Corporation. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental agencies to promulgate regulatory changes) that have adverse effects upon the ability of Corporation to generate revenues or upon the favorable utilization of their facilities.

Fraud and Abuse Enforcement

Health care fraud and abuse laws have been enacted at the federal and state levels to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be punished for submitting claims for services that are not provided, billed in a manner other than as actually provided, not medically necessary, provided by an improper person, accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or billed in a manner that does not comply with applicable government requirements, among other legal theories.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare/Medi-Cal programs, civil monetary penalties, and suspension of payments. See “BONDHOLDERS’ RISKS – The Medicare and Medi-Cal Program” herein. Fraud and abuse cases may be prosecuted by one or more government entities or private individuals, and more than one of the available penalties may be imposed for each violation.

Laws governing fraud and abuse apply to virtually all individuals and entities with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, insurers, health maintenance organizations (“HMOs”), preferred provider organizations (“PPOs”), third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions potentially can have a catastrophic effect on such entities.

Federal Criminal Fraud and Abuse Liability of Health Care Providers. Individuals and organizations are subject to prosecution under the criminal fraud and abuse statutes. The existence of a compliance plan may materially impact both the initial criminal prosecution decision and the punishment imposed on a convicted organization. The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing...
Guidelines, which permit the imposition of large fines but which permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program or accepts responsibility for its actions. Criminal conviction for an offense related to a health care provider’s participation in the Medicare program results in the provider’s exclusion and debarment from all government programs; exclusion also may result from other types of health care fraud convictions. Exclusion from the Medicare program or the large fines associated with violation of the various criminal statutes could have a material adverse effect on the organization’s financial condition.

**Criminal False Claims Act.** The criminal False Claims Act (“criminal FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. There are numerous specific rules that the provider must follow with respect to the submission of claims. The failure to follow these rules may be found in the admitting process, the care delivery process, the coding process or the billing process. Violation of the criminal FCA can result in imprisonment for up to five years or a fine of the greater of twice the gross gain or loss from the offense, or $250,000 for an individual or $500,000 for an organization. To the extent the government cannot prove criminal intent or meet its burden of proving a false claim beyond a reasonable doubt, the same conduct can typically be prosecuted under civil statutes, notably the civil FCA (described below), that can be used to prosecute reckless conduct.

**Anti-Kickback Law.** The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully 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 covered by any federal or state health care program. The Anti-Kickback Law applies to virtually every person and entity with which a hospital does business. In recent years, it has been aggressively enforced. Many Anti-Kickback prosecutions arise out of facts that were formerly viewed by health care providers and Medicare agencies as disputes regarding reimbursement for provision of services to Medicare beneficiaries. Numerous hospitals and physicians have been subject to prosecution under the Anti-Kickback Law. Another major area of recent Anti-Kickback enforcement has been non-hospital health care providers such as nursing homes, home health agencies, hospices and other ancillary service providers with respect to their relationships with each other, with hospitals and with third party payors, including HMOs.

Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $250,000 for each criminal act, imprisonment of individuals for up to five years and exclusion of individuals and entities from the Medicare and Medi-Cal programs. The Office of the Inspector General (“OIG”), the enforcement arm of the U.S. Department of Health and Human Services (“DHHS”), also can initiate an administrative exclusion of a provider from the Medicare and Medi-Cal programs. In addition, civil monetary penalties of $10,000 per item or service in noncompliance ($50,000 in some cases) or an “assessment” of three times the amount claimed may be imposed for some violations.

Health care providers, their subsidiaries and affiliates, including physicians, all have some exposure relating to the Anti-Kickback Law. Because of the government’s vigorous enforcement efforts, there is a high probability that a health care provider will be subjected to some type of government investigation for alleged Anti-Kickback violations in the area of relationships between hospitals, physicians and the operations of any nursing homes, home health agencies, hospices and ancillary service providers owned or operated by a hospital. The health care industry is working with government at all levels to focus enforcement efforts more narrowly on deliberate wrongdoers who have paid kickbacks expressly for the referral of business. If the health care industry is successful in this effort, the risk of enforcement actions to health care providers who have made good faith efforts to comply with unclear laws, regulations and directives would be reduced.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict. Health care providers may act to reduce their financial exposure for Anti-Kickback violations through prompt repayment of sums received as a result of inaccurate claims, prompt voluntary reporting to the government of illegal arrangements and the implementation of effective corporate compliance programs, and by taking steps to require that their subsidiaries and affiliates do the same.
Compliance Program. The Office of the Inspector General (the “OIG”) has asked hospitals to develop and implement formal, comprehensive internal programs intended to monitor and enforce compliance with federal, state and private payer health program requirements. The Corporation has a program of compliance procedures and policies (the “Compliance Program”) in place. The OIG has said that it will consider the existence of an effective compliance program pre-dating any governmental investigation when addressing the appropriateness of administrative remedies, although no assurance can be given that the OIG or other authorities would find the policies, procedures or programs effective or would reduce applicable penalties in view of such policies, procedures or programs.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established 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, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including federal privacy standards for the protection of health information kept by health care providers, among others, that conduct certain financial and administrative transactions electronically. Health care providers, such as the Corporation, were required to come into compliance with the applicable federal standards for privacy of individually identifiable health information (the “Privacy Rule”) by April 14, 2003. The federal Office for Civil Rights is responsible for enforcement of the Privacy Rule. Enforcement activities include investigating complaints and conducting compliance reviews and, where voluntary compliance cannot be achieved, seeking civil monetary penalties and making referrals for criminal prosecution. Authorized statutory penalties are fines of up to $250,000 and imprisonment of individuals for knowingly and in violation of HIPAA using, obtaining or disclosing protected health information unless permitted by the Privacy Rule or authorized by the patient. Compliance with the requirements of the Privacy Rule has required the Corporation to develop and use policies and procedures designed to inform patients about their privacy rights and how their protected health information may be used, to keep protected information secure, to train employees so that they understand the privacy procedures and practices of the Corporation and to designate a privacy officer responsible for seeing that privacy procedures are adopted and followed.

Federal Civil Fraud and Abuse Liability of Health Care Providers. Unlike criminal statutes, that require the government to prove that the health care provider knowingly committed the criminal act, and in some cases prove that a provider intended to violate the law, civil statutes may be violated simply by the provider’s participation in a prohibited financial arrangement or the reckless submission of claims not in full compliance with the law.

Civil False Claims Act. The civil False Claims Act ("civil FCA") allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency. The government, through the United States Attorney’s Office or the Department of Justice, also may file a civil FCA action. It also permits individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or “whistleblowers,” can share in the significant damages recovered by the government. The civil FCA has become one of the government’s primary weapons against health care fraud.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. In several cases, FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements, even in the absence of evidence that false claims had been submitted, based on the theory that the improper business relationship tainted the subsequently submitted claims. At the present time, it is not possible to predict with certainty whether courts will uniformly hold that anti-kickback and self-referral violations are subject to prosecutions as false claims. If a provider is faced with a FCA prosecution for alleged anti-kickback or self-referral violations, the sums necessary for even an innocent health care provider to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates.
If a health care provider is found to have violated the civil FCA, the potential liability is substantial. The violator can be held liable for up to triple the actual damages incurred by the government and can also be fined a penalty of $5,500 to $11,000 for each violation of the civil FCA. To avoid or reduce civil FCA liability, health care providers may choose to maintain a corporate culture of compliance with all applicable legal requirements, establish systems that enable them to learn of potential problems before a qui tam plaintiff files suit, consider making voluntary disclosures of information to the government if they discover wrongdoing or attempt to persuade the government not to proceed by cooperating with the government’s investigation.

The Compliance Program encourages awareness of and compliance with, among others, billing and coding regulations. While there can be no assurance that the Compliance Program will eliminate all bases for qui tam actions, the existence of the Compliance Program may mitigate civil FCA liability.

In 1993, a qui tam lawsuit under the Civil FCA was filed in the U.S. District Court for the Western District of Washington. The Corporation was one of 100 hospitals named as potentially charging Medicare for cardiac devices that the Food and Drug Administration had not approved for general use. This matter was delayed for several years by litigation brought by other defendants. The Complaint with respect to the Corporation has been transferred to the U.S. District Court for the Northern District of California where it continues under seal. Representatives of the Corporation recently met with representatives of the U.S. Department of Justice and the individual whistleblower. On August 22, 2002, the Justice Department filed with the United States District Court for the Northern District of California a Notice of Intervention in the case against the Corporation, along with a request that the case files be unsealed on a prospective basis. The government also requested, and was granted, leave to serve its Complaint until December 16, 2002. On October 1, 2002, the Justice Department and the Relator filed a Petition with the Multi-District Litigation Panel, asking that this lawsuit be consolidated for pretrial purposes with 22 other actions presenting similar claims against 45 other hospitals across the county, before Judge Lasnik of the U.S. District Court for the Western District of Washington. The plaintiffs in this action also have dismissed their claims against 58 defendant hospitals, while twenty-eight hospital defendants have entered into settlements with the plaintiff’s, paying a total of $39.8 million. Management of the Corporation does not express a view on the outcome of the litigation as it may affect the Corporation; the consequences of a determination of liability against the Corporation may be materially adverse.

Stark Referral Law. The federal Stark statute prohibits the referral of Medicare and Medi-Cal patients for certain designated health services (including inpatient and outpatient hospital services, home health services, clinical laboratory services, radiation and other imaging services, physical and occupational therapy, and DME and supplies) to entities with which the referring physician or immediate family member has a financial relationship. It also prohibits the entity furnishing the designated health 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. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute. Although the statute excludes numerous categories of arrangements from its definition of “financial relationships” if certain requirements are met, many ordinary business practices and economically desirable arrangements with physicians would constitute “financial relationships” within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing.

Upon determination that there is a Stark violation, a Medicare carrier or intermediary must deny payment of the affected claims, and the entity providing the designated health services must refund the amounts collected from the Medicare program and any other payor or for services rendered pursuant to the prohibited referral. Further, DHHS may seek civil monetary penalties of up to $15,000 for each service provided, and up to $100,000 for any scheme designed to circumvent the Stark statute. Additionally, the entity may be liable to pay damages of up to three times the amount of any monetary penalty, and be excluded from the Medicare and Medi-Cal programs. Such enforcement actions would have a material adverse impact on the financial condition of a health care provider. Providers may act to reduce their exposure for Stark violations by establishing an effective corporate compliance program that periodically reviews hospital-physician relationships for compliance with Stark, promptly returning to the government any payments received by way of illegal referrals, and responding in an
effective manner to complaints regarding prohibited referrals or financial arrangements that would trigger the Stark prohibitions.

The Compliance Program may reduce the Corporation’s exposure to Stark violations, but no assurance can be given that, as a result of the existence of the Compliance Program, the Corporation’s potential liability is eliminated. Despite the existence of the Compliance Program, liability for a Stark violation may have a material adverse impact on the Corporation’s financial condition.

Emergency Medical Treatment and Active Labor Act. In response to concerns regarding inappropriate hospital transfers of emergency room patients based on the patient’s ability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”). This “anti-dumping” law imposes certain requirements on hospitals prior to discharging or transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare or Medi-Cal programs as well as civil penalties. Failure of the Corporation to meet its responsibilities under EMTALA could result in civil monetary penalties and possible exclusion from the Medicare and Medi-Cal programs, either of which could adversely affect its financial condition. EMTALA and its implementing regulations are complex, and a hospital’s compliance is dependent, in part, upon the volition of independent Medical staff members. Compliance with EMTALA was recently made more difficult by regulations, which require “provider-based” facilities located on a hospital’s main campus to comply with EMTALA.

On April 29, 2003, the United States Department of Health and Human Services and the California Department of Health Services notified the Corporation of two violations of EMTALA and that its provider agreements for participation in the Medicare and Medi-Cal programs would be terminated on July 27, 2003. For a description of this action and the response of management of the Corporation to it, see APPENDIX A – “LITIGATION AND REGULATORY MATTERS.” A resurvey was conducted on June 18, 2003. After resurveying the Hospital, inspectors for the Centers for Medicare and Medicaid Services have informed the Corporation that it passed the resurvey. Formal documentation is expected shortly.

Administrative Enforcement. As with civil laws, administrative regulations require a relatively low standard of proof of a violation, and, thus, health care providers have a high risk of imposition of monetary penalties as a result of an administrative enforcement action.

Civil Monetary Penalty Act. The federal Civil Monetary Penalty Act (“CMPA”) provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medi-Cal and other federal health care programs. A hospital that participates in arrangements known as “gainsharing” and pays a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty (“CMP”) ranging from $10,000 to $50,000 per incident and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider knew or “should have known” that the claim was false. Ignorance of the Medicare regulations is no defense. Under some circumstances, the imposition of CMPs on a health care provider could have a material adverse impact on the provider’s financial condition.

Exclusions from Medicare or Medi-Cal Participation. The term “exclusion” means that no Medicare or state health care program payment (including Medi-Cal) will be made for any services rendered by the excluded party or for any services rendered on the order or under the supervision of an excluded physician. The Secretary of DHHS is required to exclude from program participation for not less than five years any individual or entity who has been 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 Secretary also may exclude individuals or entities under certain other circumstances, such as an unrelated
conviction of fraud, theft, embezzlement, breach of fiduciary duty, 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.

Compliance with Conditions of Participation. The Centers for Medicare and Medicaid Services ("CMS"),
formerly known as the Health Care Financing Administration, 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 such conditions. In that event, a notice of termination of participation may be issued to such
provider or other sanctions potentially could be imposed. As of the date of this Official Statement, management is
not aware of any such notices pending or contemplated against the Corporation based upon failure to comply with
conditions of participation.

Enforcement Activity. Enforcement activity against health care providers appears to be increasing, and
enforcement authorities may be adopting more aggressive approaches. In the current regulatory climate, it is
anticipated that many hospitals and physician groups will be subject to an investigation, audit or inquiry regarding
billing practices or false claims. From time to time, the Corporation has been the subject of OIG, U.S. Attorney
General or Justice Department investigations, audits or inquiries. Management believes that it has properly
complied with the laws concerning billing practices and the submission of false claims. Nevertheless, because of
the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations,
audits or inquiries is increasing and could result in enforcement action against the Corporation.

Enforcement authorities are in a position to compel settlements by providers charged with false claims
violations by withholding or threatening to withhold Medicare, Medi-Cal or similar payments or by instituting
criminal action. In addition, the cost of defending such an action, the time and management attention consumed
thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular
case or cases, the Corporation 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, business and credit of the Corporation, regardless of the outcome, and could have
material adverse consequences on the Corporation’s financial condition.

At the current time no governmental investigations regarding the Corporation’s Medicare billing practices
are pending, except as described above under the heading “Civil False Claims Act”. The Compliance Program
may reduce future exposure for violations of law concerning billing practices or false claims, but no assurance can
be given that, as a result of the existence of the Compliance Program, potential liability has been eliminated.
Despite the existence of the Corporation’s program, liability for such violations in the future may have a material
adverse impact on the Corporation’s financial condition.

The Corporation routinely evaluates, through privileged and unprivileged reviews, the need for
adjustments with regard to billings for various services and possible impacts on subsequent cost reports of certain
items identified as part of prior-year cost report audits, among other matters. The Corporation expects that these
evaluations will result in some repayments to, or revisions in amounts due from, certain third party payors, but
management expresses no opinion regarding the possible materiality of such amounts.

Liability Under State Laws

Health care providers also are subject to prosecution and civil penalties under a variety of state laws,
notably the following:

Medi-Cal Fraud. It is unlawful to submit false information to Medi-Cal with the intent to defraud.

Medi-Cal Anti-Kickback Statute. This statute largely adopts the language of the federal Anti-Kickback
Law. The penalty for violation of this law is a conviction of either a misdemeanor or a felony and one
year of imprisonment, or both.
**Kickback for Referral of a Patient, Client or Customer.** It is illegal for a person or an entity to receive any rebate, refund, commission, preference, patronage, dividend, discount or other payment for the referral of patients, clients or customers to a licensed health care provider unless one of two statutory safe harbors applies. The statute applies to all health care services, not only those reimbursable by government health care programs. Violation is a public offense punishable by incarceration for up to one year or a fine and, for a second offense, incarceration in state prison.

**Self Referral Law.** The Physician Ownership and Referral Act of 1993 prohibits referrals by physicians and their families to entities with which they have a financial relationship. There are numerous exceptions to the referral ban, including exceptions that permit referrals to hospitals and referrals among physicians in the medical foundation setting. The penalty for violation of this statute is a misdemeanor punishable by fine.

**Civil FCA.** California’s civil FCA is modeled on the federal law. Though enforcement under this statute to date has been virtually non-existent, it is anticipated that the State Attorney General’s Office will be motivated to explore this statute further in light of the successful use of the federal FCA.

**The Medicare and Medicaid Programs**

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is jointly funded by federal and state government. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older or disabled, or qualify for the End Stage Renal Disease Program. The Medicare program is administered by CMS, an agency of DHHS, through contracts with fiscal intermediaries and carriers.

Medicaid is designed to pay providers for care given to the medically indigent, is funded by federal and state appropriations, and is administered by the various states. Medical benefits are available under each participating state’s Medicaid program, within prescribed limits, to persons meeting certain minimum income or other eligibility requirements including children, the aged, the blind or disabled.

Health care providers have been and will be affected significantly by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, and have caused severe reductions in reimbursement from the Medicare program.

The following is a summary of the Medicare and Medicaid programs and certain related risk factors:

**Medicare Payments.** Payments under the Medicare program accounted for approximately 26% of the Corporation’s gross patient revenues in its fiscal year ended August 31, 2002.

When the Medicare program first began paying for general acute care inpatient hospital services, it paid general acute care hospitals an amount based on their costs. This cost-based reimbursement system provided no incentive for hospitals to control their costs. Hospitals that incurred the most costs generally received the most Medicare reimbursement.

In the early 1980s, the Medicare program changed the way it paid for general acute care inpatient hospital services by creating an inpatient prospective payment system (the “Inpatient PPS”). Under the Inpatient PPS, the Medicare program pays general acute care hospitals a predetermined rate for each discharge of an inpatient Medicare beneficiary. Separate Inpatient PPS payments are made for inpatient operating costs and inpatient capital-related costs. With certain exceptions, such payments are not based upon a hospital’s cost of providing service. In essence, the Inpatient PPS requires hospitals to keep their costs below Medicare Inpatient PPS payment rates in order to avoid
losing money on acute care hospital inpatient services furnished to Medicare beneficiaries. The Inpatient PPS payment rates are unilaterally adjusted by CMS on an annual basis. Such adjustments often lower Medicare payment rates for general acute care inpatient hospital services.

**Inpatient Operating Costs.** Under the Inpatient PPS, acute care hospitals certified to participate in the Medicare program are paid a specified amount based on the Diagnosis Related Group (“DRG”) to which each Medicare patient is assigned. The DRG is determined by the diagnoses, procedures and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS as a part of the Inpatient PPS, and is not directly related to a hospital’s actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays (“Outliers”), CMS will provide additional payments above those specified for the applicable DRG(s). DRG rates may be adjusted on an annual basis as part of the federal budget reconciliation process and are thus subject to deficit reduction activities aimed at the federal budget generally or the Medicare program specifically.

The Balanced Budget Act of 1997 (“BBA”) contains numerous provisions intended to reduce or contain Medicare expenditures for hospital services. These provisions provide for inflation updates below hospital industry market base for the years 1999 through 2002. Other changes in the BBA include, but are not limited to, the reduction of payments for indirect medical education. The BBA has been generally viewed as an important factor in the adverse financial results experienced by many hospitals. Federal legislation enacted in 1999 and 2000 modified and delayed some of the reductions contained in the BBA. There is no guarantee that such Medicare reimbursement rates and other payments, as they change from time to time, will cover the Corporation’s actual costs of providing services to Medicare patients.

**Inpatient Capital Costs.** Medicare payments for capital costs (e.g., depreciation, interest, property taxes, and similar expenses for plant and equipment), are based on a prospective payment system similar to the inpatient operating costs prospective payment system. A separate per-case standardized amount is paid for capital costs, adjusted to take into account certain hospital characteristics and weighted by a DRG. Capital costs are paid exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. In addition to the basic payments, additional payments may be made for outlier cases that are extraordinarily costly or involve atypically long stays.

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

**Costs of Outpatient Services.** An outpatient prospective payment system (“OPPS”) based upon Ambulatory Patient Classification Groups (“APC”) went into effect on August 1, 2000 for Medicare-covered outpatient services. A payment rate for each APC is established based upon national median hospital costs (including operating and capital) adjusted for variations in hospital labor costs across geographic areas. Depending on the services provided, hospitals may be paid for more than one APC per patient encounter. CMS will make additional payment adjustments under OPPS including (i) outlier payments for services where the hospital’s costs exceeds 2.5 times the APC rate for that service; (ii) transitional pass-through payments for certain drugs and medical devices; and (iii) through calendar year 2003, transitional corridor payments to help reduce the impact of any loss resulting from the transition to the new OPPS. Such a system would cause a hospital with costs above the payment rate to incur losses on such services provided to Medicare beneficiaries.

**Physician Payment.** Medicare Part B provides payments for physician services, including employed or provider-based physicians, based upon a national fee schedule. Subject to certain limitations, including limits on the overall growth rate for Part B costs, payments to participating physicians are to be adjusted based upon inflation for medical services. Payments to physicians that do not participate in Medicare are paid by Medicare at lower levels than payments to participating physicians. In general, the professional staff members of the Corporation are participating physicians.
Psychiatric Services. Unlike most other services covered by a prospective payment system and other similar payment systems, currently Medicare payments for inpatient services provided by psychiatric hospitals and units that meet the requirements to be exempted from the Inpatient PPS are generally paid their reasonable cost, subject to certain limits and exceptions. Cost-based payments for psychiatric hospitals and units are scheduled to be replaced with a prospective payment system, however. When implemented, the prospective payment system will cause a hospital with costs above the prospective payment system rate to incur losses on inpatient psychiatric services to Medicare patients.

Rehabilitation Services. On August 7, 2001, CMS published a final regulation creating a prospective payment system for inpatient rehabilitation hospitals and units (the “IRF-PPS”). For cost reporting periods beginning on or after October 1, 2002, payment is based on 100% of the adjusted federal prospective payment rate and does not take into account previous cost-based or TEFRA payment calculation methods. The IRF-PPS uses information from a patient assessment instrument to classify patients into distinct case-mix groups (“CMGs”) based on clinical characteristics and expected resource needs. The CMGs were constructed using rehabilitation impairment categories, functional status (both motor and cognitive), age, comorbidities, and other factors that we deemed appropriate to improve the explanatory power of the groups. Payment for services furnished to a Medicare patient consists of a predetermined, per-discharge amount for each CMG with applicable case and facility level adjustment. Payments under the IRF-PPS encompass inpatient operating and capital costs of furnishing covered rehabilitation services, (that is, routine, ancillary and capital costs). Hospitals with costs above this rate will incur losses on inpatient rehabilitation services to Medicare patients.

Provider-Based Standards. The Medicare program pays certain facilities and services differently depending upon whether they are “provider-based” or “freestanding.” A “provider-based” facility or service is an integral part of another provider, such as a hospital. Certain administrative costs and overheads of the provider organization may or must be allocated in part to the provider-based organization. “Freestanding” providers are not considered part of another provider for purposes of the Medicare program and stand on their own for purposes of Medicare payments. First by means of Program Memoranda and later by regulation, CMS has continuously tightened the criteria or evaluation of existing criteria to make obtaining a provider-based determination more difficult. Reclassification of entities now characterized as “provider-based” to “free-standing” could adversely affect the Corporation’s payments under the Medicare Program.

Direct and Indirect Medical Education Reimbursement. The Corporation, as the principal teaching hospital of the Stanford University School of Medicine, 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 BBA 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 ending on or before December 31, 1996, and contained other provisions which 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.

Audits and Withholds. Medicare and Medi-Cal participating hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare and Medi-Cal programs. Although management of the Corporation believes its reserves are adequate for the purpose, any such adjustments could be substantial. Applicable regulations also provide for withholding Medicare or Medi-Cal payments in certain circumstances, and such withholds could have a material adverse effect on the financial condition of the Corporation. Contracts between hospitals and third-party payors also often have contractual audit, setoff and withhold language that may cause substantial, retroactive adjustments. Such contractual provisions also could have a material adverse effect on the financial condition of the Corporation.

California Medi-Cal Program

Medi-Cal Program. Under a federal Medi-Cal waiver, the State of California selectively contracts with hospitals to provide acute inpatient services to Medi-Cal patients. Currently, the Corporation has a Medi-Cal
contract with the State of California. The financial impact of selective contracting on a particular hospital depends upon a variety of factors such as the base contract rates, the availability of supplemental payments for disproportionate share hospitals and an individual hospital’s ability to control costs. CMS evaluates California’s selective contracting program for renewal every two years. No assurances can be made that CMS will continue to renew the selective contracting program.

Generally, such selective contracting is made on a negotiated per diem or per discharge payment basis. Historically, such payment rates have not increased in direct relation to inflation, costs or other factors. Total payments for any fiscal period under the Medi-Cal contract may not exceed a hospital’s customary charges for services rendered under the contract. Additionally, the aggregate statewide payments under the Medi-Cal contracting program may not exceed the aggregate statewide amount that would have been paid by the State of California under its prior cost-based system, or the aggregate that would have been paid if Medicare reimbursement rates were utilized. No assurances can be made that the Corporation’s Medi-Cal contract will reimburse the Corporation at favorable rates.

Generally, the State of California or the contracting hospitals may terminate such Medi-Cal contracts on 120 days’ prior written notice. The State may also terminate these contracts without notice under certain circumstances and is obligated to make contractual payments only to the extent the State of California legislature appropriates adequate funding. Nevertheless, no assurances can be made that the contract will continue in force. The termination of the contract or a material reduction in reimbursement rates would have a material adverse impact on the financial position of the Corporation.

Medi-Cal Managed Care. Under federal waivers, the State of California has implemented a plan to expand Medi-Cal managed care in 23 counties. In general, under this plan, the State Department of Health Services (“DHS”) contracts with two managed care plans, one “Local Initiative” and one commercial HMO plan, for the care of enrolled Medi-Cal beneficiaries on a capitated basis. The termination of either of these contracts would have a material adverse impact on the volume of patients treated by the Corporation. This reduction or a material reduction in reimbursement rates could have a material adverse impact on the financial position of the Corporation.

Private Health Plans and Managed Care

Health care, including hospital services, is increasingly paid for by various “managed care” plans that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services such as inpatient hospital care. Payments to the Corporation from managed care plans typically are lower than those received from traditional indemnity/commercial insurers.

In many markets, including California, managed care plans have replaced indemnity insurance as the prime source of nongovernmental payment for hospital services. In regions where managed care is prevalent, including the urban areas of California, health care providers must be capable of attracting and maintaining managed care business, often on a regional basis. To do so, regional coverage and aggressive pricing may be required. However, it also is essential that contracting providers be able to provide the contracted services without significant operating losses, all of which may require innovative cost containment efforts.

Many PPOs and HMOs currently pay providers on a negotiated fee-for-service basis or, on a fixed rate per day of care, which, in each case, usually is discounted from the typical 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, or changes in the utilization of certain services offered by the provider may be dramatic and unexpected, thus further jeopardizing the provider’s ability to contain costs.

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. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of care given
to such HMO’s enrollees. If payment under an HMO or PPO contract 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. The Corporation has terminated all of its private HMO and PPO contracts providing for payment of services on a capitated basis except for a single contract with the Palo Alto Medical Foundation.

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. As with other health care providers, the Corporation from time to time may have disputes with HMOs, PPOs and other managed care payors concerning contract interpretation issues. Such disputes may result in mediation, arbitration or litigation. Management expects that these types of issues ultimately will be resolved, sometimes through renegotiation or termination of the contract, although under certain circumstances, the Corporation may have to initiate a legal action against an HMO that is delinquent or that defaults in making timely payments to the Corporation. There can be no assurance that such disputes and defaults, in the event they occur, will not have a material adverse effect upon the Corporation’s financial condition.

Defined broadly, for the fiscal year ended August 31, 2002, managed care payments constituted approximately 52% of the gross patient service revenues of the Corporation, but there is no assurance that the Corporation will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the Corporation’s market share and gross patient service revenues. Conversely, participation may maintain or increase the patient base but could result in lower net income to the Corporation if it is unable to adequately contain its costs. Thus, managed care poses one of the most significant business risks (and opportunities) the Corporation faces.

As a consequence of the above factors, the effect of managed care on the Corporation’s financial condition is difficult to predict and may be different in the future than that reflected in the financial statements for the current period.

Hospital Pricing

A national for-profit health care provider’s pricing strategies recently have become public, triggering increased scrutiny by lawmakers, as well as the public, of pricing strategies for the delivery of health care services. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services. It is uncertain whether any such action would materially impact the Corporation’s ability to generate revenues for the services it provides. As a result of increased public scrutiny, it is possible that the pricing strategies of the Corporation may be perceived negatively by the communities served and/or the Corporation may reduce fees for the services it performs. Decreased utilization of the Corporation’s facilities could result, and the Corporation’s revenues may be negatively impacted. Either of such decreases could be material. Court action also may result in changes to pricing strategies, which could reduce the revenues of the Corporation.

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. The FDA’s inspection of facilities increased by over 50% between 1997 and 1999. Moreover, the OIG, in its recent “Work Plans” has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns). These agencies’ enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs.
Technological Changes

Medical research and resulting discoveries have grown exponentially in the last decade. These new discoveries may add greatly to the Corporation’s cost of providing services with no or little offsetting increase in federal reimbursement and may also render obsolete certain of the Corporation’s health services. The first effect—increased overall expense—may result because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care. The prospective payment system imposed on outpatient services does, however, permit a direct pass-through of certain new technologies defined by the government.

The 1990s witnessed significant reforms at the FDA, the agency that regulates the introduction of new drugs and devices to the market. In 1992, Congress passed the Prescription Drug User Fee Act that levied fees on industry to support a substantial upgrade and reorganization of the agency for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices. This Act was renewed and new FDA reforms enacted by the Food and Drug Administration Modernization Act of 1997. The result of these pieces of legislation has been to cut in half the median time required for new drug approval. Other effects include decrease in the types of devices regulated, reform of the biologics approval process and decrease in clinical development times.

Once these drugs secure market approval, they are often included on hospitals’ formularies—the list of drugs maintained by the hospitals for patient care. These may add significant operating expense with no immediate reimbursement through government payors for inpatient services.

A second potential effect is that discoveries could render obsolete the way that services are currently rendered thereby either increasing expense or reducing revenues. However, any such effect cannot be predicted.

Affiliation, Merger, Acquisition and Divestiture

As with many other health care providers, the Corporation may in the future plan for, evaluate and pursue, potential merger, and affiliation opportunities on a continuing basis as part of its overall strategic planning and development process. The Corporation also reviews the use, compatibility and business viability of many of its operations, and from time to time the Corporation may pursue changes in the use of, or disposition of, its facilities. Likewise, the Corporation may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties which may become part of the Corporation in the future, or about the potential sale of some of the operations and properties of the Corporation. Discussions with respect to affiliation, merger, acquisition, disposition or change of use, including those which may affect the Corporation, may be held on an intermittent, confidential basis with other parties and may include the execution of non-binding letters of intent. As a result, it is probable that the assets which are currently owned by the Corporation would change from time to time. Such changes will be subject to the provisions in the Master Indenture, as amended from time to time, which apply to merger, sale, disposition or purchase of assets, or with respect to joining or withdrawing from the Obligated Group. A recent California state law imposes additional restrictions on transactions involving nonprofit and for-profit health care providers, and the California Attorney General has stepped up his interest in such transactions as well.

Currently, the Corporation also has operating affiliations and joint ventures with other nonprofit and for-profit Corporations. In certain instances, such affiliates may conduct operations which are of strategic importance to the Corporation, or their operations may subject the Corporation to potential legal or financial liabilities. In some cases, the Corporation funds the affiliates on a start-up or ongoing basis, and this funding may be significant.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting,
physician relations, joint ventures, merger, acquisition and affiliation 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 still evolving, and enforcement activity appears to be increasing. Violation of the antitrust laws could result in criminal or 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. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, merger, acquisition and affiliation activity and use of a hospital’s local market power for entry into related health care businesses. From time to time, the Corporation may be involved with all of these types of activities, and management cannot predict in general when or to what extent liability, if any, may arise. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case.

Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals and seek treble damages. Hospitals regularly have disputes with physicians regarding credentialing and peer review and, therefore, may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities and also may be liable with respect to such indemnity. Recent court decisions also have established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

The Corporation is a named defendant in Jung v AAMC, an antitrust suit recently filed in federal court in Washington, D.C., purportedly on behalf of a class of plaintiffs (interns, residents and fellows). The suit seeks treble damages and injunction relief arising out of (1) the selection process (the “match”); (2) exchange of salary information for resident and fellow positions; and (3) the accreditation of graduate medical programs. The Corporation is one of 29 institutional defendants that have been sued as representatives of a purported defendant class of approximately 1,000 medical schools and teaching hospitals; the complaint also names as defendants seven national organizations. The case is in the very early stages and it is too early to fully evaluate the case. The Corporation has filed a motion to dismiss for lack of personal jurisdiction. At this time, management believes there are good defenses to this suit, but if the classes are certified and plaintiffs are fully successful, the nature and amount of the relief demanded would be material.

Competition

The Corporation may face increased competition in the future from other academic medical centers, general hospitals, specialty hospitals, surgery centers, increasingly sophisticated physician group practices, and from other health care providers that offer comparable health care services. The growth of electronic commerce may also result in a shift in the way that health care is delivered. Persons residing in the Corporation’s service area may be able to receive certain health services from remote providers. For example, physicians will be able to provide certain services over the internet (e.g., teleradiology and second opinions). Pharmaceuticals and other health services may also now be ordered over the internet. Additionally, other service providers in competition with the Corporation may now compete with the Corporation through this new medium by advertising their services and providing easy registration for competing services over the internet. Also, alternative forms of health care payment, including managed care organizations and consumer-driven care, as well as expanded preventive medicine and outpatient treatment, could affect the Corporation’s ability to maintain its market share at current levels. Overall, the effects of such increased competition on the Corporation’s revenue, including pressures for increased discounts in contracts with alternative delivery systems, cannot be predicted.

Labor Relations

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. The Corporation
currently has employees covered by collective bargaining agreements. The Corporation experienced a 53-day strike by covered workers in 2000 and a one-day strike in 2002. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS – Employees.” In June 2000, the registered nurses at the Corporation, which are represented by the Committee for Recognition of Nursing Achievement (“CRONA”), agreed to a strike, which lasted seven weeks. The current contract among CRONA, LPCH and the Corporation, which was the result of negotiations following the strike, expires in March 2004. In November 2002, the Service Employees International Union, which represents various support staff, staged a one-day strike. Future renegotiations of these agreements may lead to cost increases to the Corporation, and employee strikes or other adverse labor actions may have an adverse impact on the Corporation.

**Health Care Worker Classification.** Increasingly, an additional area of economic exposure for employers, including health care providers, is misclassification of employees as independent contractors. If a worker is classified as an employee, the employer pays certain taxes based upon the amounts earned by the employee. Independent contractors, however, bear the entire economic burden of such taxes by paying self-employment taxes. Consequently, if an employer classifies a worker as an independent contractor and that worker subsequently is reclassified as an employee, the employer is liable for all taxes the employer otherwise would have paid to the IRS. Although a single misclassification may not have a material adverse effect on the Corporation, a number of misclassifications over a period of time, together with any resulting penalties, may have an adverse financial impact. Management believes it currently correctly classifies workers as employees or independent contractors for tax purposes.

**Staffing.** California legislation adopted in 1999 requires DHS to adopt regulations specifying nurse-to-patient ratios for general acute-care hospitals, acute psychiatric hospitals and special hospitals. The Corporation has implemented certain nurse staffing ratios that management believes are compliant with the ratios, as announced by DHS to go into effect in 2003. The additional cost associated with these required staffing ratios is anticipated to be substantial, and it is unlikely that all of such additional cost can be recovered from third party payors. These unpaid costs could have a material adverse affect on the financial condition of the Corporation.

In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other qualified health care technicians and personnel. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This may be expected to intensify in the future, aggravating the shortage of such personnel and increasing the likelihood that the state-mandated nurse-to-patient ratios cannot be met. Management cannot predict whether this trend will continue, but, if it does, it could have a material adverse impact on the business, financial condition and results of operations of the Corporation.

**Federal and State Employment Discrimination Investigations; Grievance Proceedings.** The Corporation receives notices from the U.S. Equal Employment Opportunity Commission (“EEOC”) and California Department of Fair Employment and Housing (“DFEH”) from time to time of their intention to investigate charges of discrimination filed against the Corporation. Several previous claims have been closed or withdrawn. Individuals who receive Right to Sue letters may bring lawsuits against the Corporation. Such claims are generally handled by the Corporation’s third party claims administrator. From time to time, grievances are filed by employees covered by collective bargaining agreements. In addition, grievances by employees not covered by the union contracts are filed under the staff grievance procedure. In management’s opinion, none of these matters typically results in material adverse impact on the business, financial condition or results of operations of the Corporation.

**Tax-Exempt Status of the Corporation**

**Maintenance of the Tax-Exempt Status of the Corporation.** The tax-exempt status of the outstanding tax-exempt debt issued for the benefit of the Corporation presently depends upon maintenance by the Corporation of its status as an organization described in Section 501(c)(3) of 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 educational 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 addressed in any official opinion, interpretation or policy of the IRS.

In recent years, the IRS has issued a number of formal and informal statements of policy and interpretation that have increased uncertainty over the IRS’s position on a wide variety of activities commonly undertaken by health care organizations. As a result, tax-exempt health care providers currently are subject to an increased degree of scrutiny and enforcement activity by the IRS.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt health care organizations. If the IRS were to find that the Corporation had participated in activities in violation of certain regulations or rulings, its tax-exempt status 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 the Corporation potentially could result in loss of tax exemption of the 2003 A 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. For these reasons, loss of tax-exempt status of the Corporation could have a material adverse effect on the financial condition of the Corporation.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain “excess benefit transactions” involving 501(c)(3) and 501(c)(4) organizations and “disqualified persons.” An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the 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. The intermediate sanctions rules do not penalize the exempt organization itself, so there would be no direct impact on the Corporation or the tax status of the 2003 A Bonds if an excess benefit transaction were subject to IRS enforcement.

In a number of recent cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In such cases, the IRS and such exempt hospitals entered into “closing agreements” with respect to the hospitals’ alleged violations of certain informal physician recruiting guidelines applied by the IRS. The closing agreements require such hospitals to make substantial tax payments to the IRS.

In 1990, the former Employee Plans and Exempt Organizations Division of the IRS expanded the Coordinated Examination Program (“CEP”) of the IRS to tax-exempt health care organizations. To qualify for the CEP program, a taxpayer must have at least $500 million in assets or $1 billion in gross receipts. CEP audits are conducted by teams of revenue agents. CEP audits often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. CEP revenue agents often occupy office space on the taxpayer’s premises for the duration of the audit.

The CEP audit teams that examine tax-exempt health care organizations are led by senior Tax Exempt and Government Entities Division (the “TE/GE Division”) revenue agents who consider examining a wide range of possible issues, including the community benefit basis of exemption, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business taxable income.

At this time, the Corporation does not qualify for CEP audits. There is no assurance that the Corporation will not qualify for audits, including CEP audits, in the future or that the Corporation will not be the subject of an audit, including a CEP audit, in the future. Management believes that it has properly complied with the tax laws.
Nevertheless, because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a CEP audit could result in additional taxes, interest and penalties. A CEP audit ultimately could affect the tax-exempt status of the Corporation as well as the exclusion from gross income for federal income tax purposes of the interest payable on the tax-exempt debt of such entity.

*State Income Tax Exemption and Local Property Tax Exemption.* It is likely that the loss by the Corporation of federal tax exemption also would trigger a challenge to the state tax exemption of such entity. Depending on the circumstances, such event could have a material adverse effect on the financial condition of the Corporation.

In recent years, state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt health care providers with respect to real property tax exemptions. In some cases, particularly where such 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. A substantial portion of the real property of the Corporation is exempt from real property taxation. An investigation or audit could lead to a challenge that ultimately could affect the real property tax exemption of the Corporation.

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

*Unrelated Business Income.* In recent years, the IRS and state, county and local tax authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). The Corporation participates in activities that may generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to unreported UBTI and in some cases ultimately could affect the tax-exempt status of such entity, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the 2003 A Bonds and other tax-exempt debt of the Corporation.

*Maintenance of Tax-Exempt Status of Interest on the 2003 A Bonds*

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the 2003 A 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, and a requirement that the issuers file an information report with the IRS. The Corporation has covenanted in certain of the documents referred to herein 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 2003 A Bonds as taxable, retroactively to the date of issuance. The Authority has covenanted in certain of the documents referred to herein that it will not take any action or refrain from taking any action that would cause interest on the 2003 A Bonds to be included in gross income for federal income tax purposes.

The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the TE/GE Division.

The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the 2003 A Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the 2003 A Bonds will not adversely affect the market value of the 2003 A Bonds or result in higher rates of interest on any obligations of the Corporation that bear interest at variable rates. See “TAX MATTERS” herein.
Indigent Care

Tax-exempt hospitals often treat large numbers of “indigent” patients who, for various reasons, are unable to pay in full for their medical care. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or the hospitals’ responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medi-Cal) may increase the frequency and severity of indigent treatment in such hospitals. It also is possible that future legislation could require that tax-exempt hospitals maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes. Therefore, the Corporation’s indigent care commitments could constitute a material and adverse risk in the future.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code

As tax-exempt organizations, the Corporation is limited with respect to its 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. The IRS also has commenced intensive audits of selected teaching hospitals to determine whether the activities of these hospitals are consistent with their continued tax-exempt status. Any suspension, limitation, or revocation of the Corporation’s tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Corporation and might lead to loss of tax exemption of interest on the 2003 A Bonds.

Licensing, Surveys, Investigations and Audits

Health facilities, including those of the Corporation, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medi-Cal participation and payment, state licensing agencies, private payors and the Joint Commission for Accreditation of Healthcare Organizations (“JCAHO”). Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Corporation. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Corporation’s scope of licensure, certification or accreditation, could reduce the payment received, or could require repayment of amounts previously remitted to the provider.

The Corporation has full JCAHO accreditation. Management anticipates no difficulty renewing or continuing currently held accreditations, licenses or certifications, nor does it anticipate a reduction in third-party payments from such events that would materially adversely affect the operations or financial condition of the Corporation. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues or the Corporation’s ability to operate all or a portion of its facilities and, consequently, could have a material and adverse effect on the Corporation’s ability to make the payments relating to the 2003 A Bonds.

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, provider operations or facilities and properties owned or operated by providers. The types of regulatory requirements faced by health care providers include: air and water quality control requirements; waste management requirements; specific
regulatory requirements applicable to asbestos, polychlorinated biphenyls 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.

In their role as owners or operators of its properties or facilities, the Corporation may be subject to liability for investigating and remediying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or 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. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

Management is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues or any instance of contamination which, if determined adversely to the Corporation, would have material adverse consequences to the Corporation.

Earthquakes

A significant earthquake in Northern California could have a material adverse effect on the Corporation and could result in material damage and temporary or permanent cessation of operations at the Corporation’s facilities. The Corporation currently does not carry earthquake insurance coverage.

Legislation adopted in California during 1994 requires each acute care hospital in the State to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. Delays in compliance with the January 1, 2008 deadline will be permitted if a hospital owner shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital owner 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. It should be noted, however, that the standards have not yet been established. Management has estimated that its cost of compliance with these regulations through December 31, 2007 will be approximately $22,810,000. A portion of these costs will be provided from the proceeds of the 2003 A Bonds.

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 2003 A 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 2003 A 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 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. 9 by a bankrupt Member could constitute payments to or for the benefit of an insider, within the meaning of Section 547(b) of the 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 2003 A 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. 9 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. 9.

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 Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The various legal opinions delivered concurrently with the issuance of the 2003 A 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. 9, have no security interest in such funds.

Construction Delays and Cost Overruns

The Corporation is currently undertaking a number of construction projects, including certain of the projects to be financed with Bond proceeds, and is expected to undertake additional projects in the future. Completion of such projects is subject to approval by the appropriate governmental bodies. In addition, numerous risks are involved in any such projects, including delays and increased costs due to strikes, shortages of materials, adverse weather conditions, changes in project design, inflation, and numerous other factors. Therefore, there can be no assurances that the projects currently pursued or undertaken in the future by the Corporation will be finished on time or within budget.
Investments

The Corporation has significant holdings in a broad range of investments. Market fluctuations will affect the value of those investments, and those fluctuations may be, and have historically been, at times, material. In its fiscal year ended August 31, 2002 and the six-month period ended February 28, 2003 (unaudited), the Corporation had investment income, including net realized gains, of $3,926,000 and $2,043,000, respectively, and may experience net realized gains or losses on investments in the future. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS – Historical Corporation Financial Performance – Investment Portfolio and Policies.”

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 nationwide, resulting in substantial increases in malpractice insurance premiums. 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 the Corporation, from the Corporation’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, business disputes and workers’ compensation claims are not covered by insurance or other sources and may, in whole or in part, be a liability of the Corporation if determined or settled adversely. As noted above, claims for punitive damages are not covered by insurance. While the Corporation currently has a program of self-insurance and excess insurance policies that management considers adequate, no assurances can be given that the maintenance of such coverage will continue to be financially feasible for the Corporation in the future. For a discussion of the insurance coverage of the Corporation, see APPENDIX A – “INFORMATION CONCERNING THE CORPORATION – PROFESSIONAL LIABILITY AND OTHER INSURANCE.”

Other Risk Factors

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 2003 A 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.
(b) Reduced demand for the services of the Corporation that might result from decreases in population.
(c) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.
(d) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
(e) Increased unemployment or other economic conditions in the Corporation’s service areas, which could increase the proportion of patients who are unable to pay fully for the cost of their care.
(f) 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.
(g) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, that health care facilities of a similar size and type generally carry.

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

(i) Adoption of a so-called “flat tax” federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Bonds.

(j) 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 ("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 2003 A 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 2003 A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

The difference (if any) between the issue price of any maturity of the 2003 A Bonds and the amount to be paid at maturity of such 2003 A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2003 A Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2003 A Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2003 A Bonds is the first price at which a substantial amount of such maturity of the 2003 A 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 2003 A Bonds accrues daily over the term to maturity of such 2003 A 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 2003 A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2003 A Bonds. Owners of the 2003 A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2003 A Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2003 A Bonds in the original offering to the public at the first price at which a substantial amount of such 2003 A Bonds is sold to the public.

Any 2003 A Bonds purchased, whether at original issuance or otherwise, for an amount greater 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 purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. 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 2003 A Bonds. The Authority and the Corporation have made representations relating to certain of these requirements and have covenanted to comply with certain restrictions designed to assure that interest on the 2003 A 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 2003 A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2003 A 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) after the date of issuance of the 2003 A Bonds may adversely affect the value of, or the tax status of interest on, the 2003 A Bonds.

In addition, Bond Counsel has relied on the opinion of Ropes & Gray LLP regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Neither Bond Counsel nor Ropes & Gray LLP 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 Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the 2003 A Bonds being included in federal gross income, possibly from the date of the original issuance of the 2003 A Bonds.

The interest rate determination method and certain other requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2003 A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the 2003 A 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 2003 A Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholders' other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the 2003 A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the 2003 A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the 2003 A Bonds for audit examination, or the course or result of any IRS examination of the 2003 A Bonds, or obligations which present similar tax issues, will not affect the market price for the 2003 A Bonds.

**APPROVAL OF LEGALITY**

The validity of the 2003 A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. 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 its counsel, the Attorney General of the State of California. Certain other matters will be passed upon for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P.
RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), have assigned their municipal bond rating of “A3” and “A-”, respectively, to the 2003 A 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 2003 A 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 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 such rating agencies, if in its judgment circumstances so warrant. Except as provided in the Continuing Disclosure Agreement and described above under “INTRODUCTORY STATEMENT-Continuing Disclosure,” the Authority, the Corporation and the Underwriters have undertaken no responsibility either to bring to the attention of the owners of the 2003 A Bonds any proposed change in or withdrawal of either of the ratings or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the 2003 A Bonds.

INDEPENDENT ACCOUNTANTS

The financial statements of the Corporation as of August 31, 2002 and for the year then ended included in Appendix B-1 to this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report dated December 13, 2002 appearing thereon. Such financial statements are on integral part of this Official Statement and should be reviewed in their entirety.

No audited or unaudited financial statements for any period prior to the fiscal year ended August 31, 2002 have been included in this Official Statement. For management’s discussion regarding pre-fiscal year 2002 financial statements, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS – SUMMARY OF FINANCIAL INFORMATION.”

UNDERWRITING

The 2003 A Bonds are being purchased by the underwriters appearing on the cover page of this Official Statement (the “Underwriters”), for which Bear, Stearns & Co. Inc. is acting as the representative. The Underwriters have agreed to purchase the 2003 A Bonds at a price of $105,012,990.05. The difference between the par amount of the 2003 A Bonds and the purchase price is composed of net original issue premium of $5,707,934.05 ($5,902.35 original issue discount plus $5,713,836.40 original issue premium) and an Underwriters’ discount of $694,944.00. The Bond Purchase Contract provides that the Underwriters will purchase all of the 2003 A Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriters and the Authority against certain liabilities. The initial public offering prices set forth on the cover page of this Official Statement may be changed without notice by the Underwriters.

RELATIONSHIPS AMONG THE PARTIES

Certain of the parties acting with respect to the offering, sale, issuance and securing of the 2003 A 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 both Stanford University and LPCH. Orrick, Herrington & Sutcliffe LLP, which is acting as bond counsel on this Transaction, also acts as bond counsel on LPCH and Stanford University bond issue. Squire, Sanders & Dempsey L.L.P., which is acting as counsel to the Underwriters, periodically represents Stanford University on intellectual property matters.
MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the 2003 A Bonds, the Indenture, the Loan Agreement, the Master Indenture and the Supplement, 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 issued 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 2003 A Bonds.

CALIFORNIA HEALTH FACILITIES
FINANCING AUTHORITY

BY _____________________________

Executive Director

Approved:

STANFORD HOSPITAL AND CLINICS

BY _________________

Chief Financial Officer
APPENDIX A

INFORMATION CONCERNING
STANFORD HOSPITAL AND CLINICS

The information contained herein as Appendix A to this Official Statement has been obtained from Stanford Hospital and Clinics.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>BACKGROUND AND ORGANIZATION</td>
<td>A-1</td>
</tr>
<tr>
<td>Introduction</td>
<td>A-1</td>
</tr>
<tr>
<td>Corporate Organization and Related Entities</td>
<td>A-1</td>
</tr>
<tr>
<td>History of the Corporation and the Obligated Group</td>
<td>A-4</td>
</tr>
<tr>
<td>Governance</td>
<td>A-4</td>
</tr>
<tr>
<td>Management</td>
<td>A-6</td>
</tr>
<tr>
<td>SERVICES, FACILITIES AND OPERATIONS</td>
<td>A-8</td>
</tr>
<tr>
<td>Principal Patient Services</td>
<td>A-8</td>
</tr>
<tr>
<td>Additional Facility Needs</td>
<td>A-9</td>
</tr>
<tr>
<td>The School of Medicine</td>
<td>A-10</td>
</tr>
<tr>
<td>Operational Relationships among the Corporation, the University and LPCH</td>
<td>A-11</td>
</tr>
<tr>
<td>Bed Complement</td>
<td>A-12</td>
</tr>
<tr>
<td>Description of Admitting Medical Staff</td>
<td>A-13</td>
</tr>
<tr>
<td>Service Area</td>
<td>A-15</td>
</tr>
<tr>
<td>Market Share Map</td>
<td>A-18</td>
</tr>
<tr>
<td>Market Strategy</td>
<td>A-18</td>
</tr>
<tr>
<td>Utilization</td>
<td>A-20</td>
</tr>
<tr>
<td>Strategic Clinical Services Utilization</td>
<td>A-20</td>
</tr>
<tr>
<td>Management’s Discussion of Utilization</td>
<td>A-22</td>
</tr>
<tr>
<td>SUMMARY OF FINANCIAL INFORMATION</td>
<td>A-23</td>
</tr>
<tr>
<td>Management’s Discussion and Analysis</td>
<td>A-24</td>
</tr>
<tr>
<td>Historical and Pro-Forma Capitalization</td>
<td>A-27</td>
</tr>
<tr>
<td>Liquidity</td>
<td>A-28</td>
</tr>
<tr>
<td>Pro Forma Debt Service Coverage</td>
<td>A-28</td>
</tr>
<tr>
<td>Sources of Revenue</td>
<td>A-29</td>
</tr>
<tr>
<td>Managed Care Initiatives</td>
<td>A-30</td>
</tr>
<tr>
<td>Investments</td>
<td>A-30</td>
</tr>
<tr>
<td>ACCREDITATION, LICENSURE, MEDICARE AND MEDICAID CERTIFICATION</td>
<td>A-30</td>
</tr>
<tr>
<td>PROFESSIONAL LIABILITY AND OTHER INSURANCE</td>
<td>A-30</td>
</tr>
<tr>
<td>LITIGATION AND REGULATORY MATTERS</td>
<td>A-31</td>
</tr>
<tr>
<td>EMPLOYEES</td>
<td>A-31</td>
</tr>
</tbody>
</table>
BACKGROUND AND ORGANIZATION

Introduction

Stanford Hospital and Clinics (the “Corporation” or “Stanford Hospital and Clinics”) is a principal teaching affiliate of the Stanford University School of Medicine (the “School of Medicine”) and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation (abdominal) services and neurosciences services, designated by management as the Corporation’s “Strategic Clinical Services.” The Corporation, together with Lucile Salter Packard Children’s Hospital at Stanford, operate the clinical settings through which the Stanford University 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 594-licensed bed tertiary, quaternary and specialty hospital (the “Hospital”), and the primary, specialty and sub-specialty clinics (the “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, nearby off-campus and in neighboring communities. As shown in Table 7 below, in its fiscal year ended August 31, 2002, the Corporation treated more than 38,000 patients in its emergency room, admitted more than 20,000 inpatients and recorded more than 280,000 outpatient transactions. From these patient care activities, the Corporation earned operating revenues of more than $914 million and generated an operating margin of $4.5 million in its fiscal year ended August 31, 2002. At August 31, 2002, the Corporation’s total assets were $628 million, total liabilities were $449 million and net assets were $179 million.

The Corporation alone is responsible for the payment of principal of, redemption premium, if any, and interest on the 2003 Bonds (“debt service”). Neither Stanford University nor any of its affiliates, other than the Corporation, is obligated to pay such debt service. The University and the Corporation are not co-guarantors of the debt of each other, and the Corporation and the 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 front portion 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 predecessor provisions of 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 (a “tax-exempt organization”).

The following are brief descriptions of other entities to which the Corporation is related or in which it has interests and the nature of those relationships or interests.
Stanford University. Stanford University ("Stanford University" or the “University”), of which the School of Medicine is a part, is the sole member of the Corporation. As sole member of the Corporation, the 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. Lucile Salter Packard Children’s Hospital at Stanford ("LPCH"), a California nonprofit public benefit corporation and a tax-exempt organization, is the principal teaching affiliate of the School of Medicine for providing pediatric and obstetric services. LPCH operates a 248-bed pediatric and obstetric hospital and related outpatient clinics on the University campus and in certain neighboring communities. The LPCH main hospital facility is connected to the Stanford Hospital. LPCH purchases certain services from the Corporation and shares certain services with the Corporation. See “Operational Relationships Among the Corporation, the University and LPCH” herein. The University replaced the Corporation as sole member of LPCH effective September 1, 2001. For further information concerning this change, see “Management’s Discussion and Analysis.” Subsequently, LPCH withdrew from membership in the Obligated Group created under the Master Indenture effective March 11, 2003. For further information concerning this change, see “Historical and Pro-Forma Capitalization” herein.

SHC/LPCH Insurance Company, Inc. SHC/LPCH Insurance Company is a nonprofit tax-exempt organization, organized and licensed under the State of Hawaii’s Captive Insurance Law, which provides liability coverage to the Corporation and LPCH for medical professional, hospital, general and employment practices liability. See “Professional Liability And Other Insurance” below for additional information. The Corporation and LPCH each appoint one-half of the members of the governing body of SHC/LPCH Insurance Company and are its only members. Prior to September 2002, SHC/LPCH Insurance Company was named Stanford Hospital and Clinics Professional Insurance Company, Inc. ("SHCPIC").

Waverley Surgery Center, L.P. (“Waverley”). As of April 1, 2003, the Corporation holds 45.6604% of the limited partnership units in Waverley, a California limited partnership, which operates an ambulatory surgical center in Palo Alto, providing outpatient surgical and related health care services. The general partner of Waverley is Alpine Healthcare, LLC, a California limited liability company. As general partner, Alpine Healthcare manages and controls the operations of Waverley.

Menlo Health Alliance, Inc. (“MHA”). The Corporation is the sole shareholder of MHA, a California close corporation, which operates a multi-specialty medical clinic under the name “Menlo Medical Clinic” in affiliation with the University. At Menlo Medical Clinic, physicians with academic appointments on the faculty of the School of Medicine provide care to patients, and medical students, interns, residents and fellows of the School of Medicine receive training.

Stanford PET-CT, LLC (“PET-CT”). The Corporation and the University each appoint one-half of the members of the governing board of PET-CT and are its only members. PET-CT is a California limited liability company which provides radiological services, including positron emission tomography and computerized axial tomography scan services, to patients of the community, including patients served by the Corporation and physicians affiliated with the School of Medicine. PET-CT commenced operations in September 2002.
The current relationship by and among the entities mentioned above with respect to voting interests is shown graphically in the following chart:

- Stanford University*
  - Lucile Salter Packard Children’s Hospital at Stanford
    - SHC/LPCH Insurance Company, Inc.
    - Stanford Hospital and Clinics (Sole obligor with respect to the 2003 Bonds)
    - Menlo Health Alliance
    - Stanford PET-CT LLC

* Includes the School of Medicine.
The Corporation alone is responsible for the payment of the debt service on the 2003 Bonds. Neither Stanford University nor any of its affiliates, other than the Corporation, is obligated to pay such debt service. The University and the Corporation are not co-guarantors of the debt of each other, and the Corporation and the University receive separate credit ratings from rating agencies.

History of the Corporation and the Obligated Group

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 the 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 the 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 and ceased to conduct clinical activities. 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 Series 1998 B Bonds. In connection with the termination, the Corporation replaced the 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. Since 2000, in order to stabilize and improve its operations, the Corporation repositioned its managed care relationships, terminated certain lines of service, implemented consecutive years of "turn-around" budgets, assembled a new senior management team and corrected deficiencies in financial reporting and controls. See "SUMMARY OF FINANCIAL INFORMATION" for more information regarding factors affecting the availability of audited financial statements and other information for periods before fiscal year 2002.

Governance

Board of Directors. Pursuant to the by-laws of the Corporation, the Board of Directors (the "Board") is comprised of five ex-officio directors and between seven and fifteen elected directors as determined by Stanford University. Currently, the Board consists of five ex-officio directors and twelve directors elected by Stanford University. Except as noted below, each director has one vote. Elected directors serve for a three-year term commencing on January 1 or on such other date as specified by Stanford University. There are three classes of directors, equally sized to the extent possible, such that
the terms of the directors in only one class expire in each year. Term limits were established per the bylaws in July 2001, at which time all previously appointed directors were re-elected. Elected directors may serve up to three consecutive 3-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 and year of expiration of each director’s current term are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Service Commenced</th>
<th>Year of Expiration of Current Term</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denise O’Leary, Chair</td>
<td>1994</td>
<td>2005</td>
<td>Former Corporate Executive and Partner, Investment Firm</td>
</tr>
<tr>
<td>Robert Halperin, Vice Chair</td>
<td>1986</td>
<td>2004</td>
<td>Former Corporate Executive</td>
</tr>
<tr>
<td>Peter Bing, M.D.</td>
<td>1981</td>
<td>2005</td>
<td>Private Investor</td>
</tr>
<tr>
<td>Martin Bronk, M.D.</td>
<td>2001</td>
<td>2003</td>
<td>CEO and Managing Partner, Menlo Medical Clinic, and Surgeon, and Clinical Associate Professor, Stanford University School of Medicine</td>
</tr>
<tr>
<td>Mariann Byerwalter</td>
<td>1997</td>
<td>2003</td>
<td>Former CFO and Vice President for Business Affairs, Stanford University</td>
</tr>
<tr>
<td>Christopher Dawes, <em>ex-officio</em></td>
<td>N/A</td>
<td>N/A</td>
<td>President and CEO, Lucile Packard Children’s Hospital</td>
</tr>
<tr>
<td>John Freidenrich, <em>ex-officio</em></td>
<td>2001</td>
<td>2005</td>
<td>Chair, Lucile Packard Children’s Hospital Board of Directors</td>
</tr>
<tr>
<td>Richard Hoppe, M.D.</td>
<td>2000</td>
<td>2005</td>
<td>Chair, Department of Radiation Oncology, Stanford University School of Medicine</td>
</tr>
<tr>
<td>Martha Marsh, <em>ex-officio</em></td>
<td>2002</td>
<td>N/A</td>
<td>President and Chief Executive Officer, Stanford Hospital and Clinics</td>
</tr>
<tr>
<td>Albert Martin, M.D.</td>
<td>2001</td>
<td>2003</td>
<td>Former Health Care Executive</td>
</tr>
<tr>
<td>Susan Orr</td>
<td>2000</td>
<td>2003</td>
<td>Business Owner, Non-profit Corporation</td>
</tr>
<tr>
<td>Philip Pizzo, M.D., <em>ex-officio</em></td>
<td>2001</td>
<td>N/A</td>
<td>Dean, Stanford University School of Medicine</td>
</tr>
<tr>
<td>Norman Rizk, M.D., <em>ex-officio</em></td>
<td>2001</td>
<td>N/A</td>
<td>Senior Associate Dean for Clinical Affairs, Stanford University School of Medicine</td>
</tr>
<tr>
<td>John Scully</td>
<td>1994</td>
<td>2004</td>
<td>Managing Director, Investment Firm</td>
</tr>
<tr>
<td>Peter Stamos</td>
<td>2002</td>
<td>2004</td>
<td>Health Care Consultant</td>
</tr>
<tr>
<td>Isaac Stein</td>
<td>1981</td>
<td>2004</td>
<td>President, Private Investments</td>
</tr>
<tr>
<td>Jon Steve Young</td>
<td>2003</td>
<td>2006</td>
<td>Founder, Non-Profit Public Charity Foundation</td>
</tr>
</tbody>
</table>

*Non-voting.

**Board Committees.** The by-laws of the Corporation create the Audit Committee (auditor control, supervision and selection) and the 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: Finance Committee (budgets, investments, and financial statements); Nominating Committee (recommends candidates to the University’s nominating committee to fill vacancies on the Board of Directors), and Compensation Committee (senior executive compensation). In addition, from time to time, the Board creates one or more Ad Hoc Committees to deal with such matters as the Board shall delegate to such ad hoc committee.

**Audit Committee Review.** A review of the duties and responsibilities of the Audit Committee is being conducted, in light of recent events involving accounting practices, audits, and responsibilities of audit committees and audit firms. Upon completion of this review, the Audit Committee will submit a recommendation to the Board.

**Management**

The by-laws of the Corporation create the positions of President (Chief Executive Officer) and Chief Financial Officer. The Board appoints the President, after consultation with and nomination by, the President of Stanford University. The President of the Corporation appoints the Chief Financial Officer and is also permitted to appoint and prescribe the duties of such additional officers as the President may deem proper. The President has created the following additional executive and managerial positions, among others: Chief Operating Officer, Chief Information Officer and Vice President for Strategic Planning and Marketing. Biographical information on the current executive management is set forth below.

**Martha H. Marsh, President and Chief Executive Officer.** Martha H. Marsh became the President and Chief Executive Officer of Stanford Hospital and Clinics in April 2002. She came to Stanford from the University of California at Davis (“UC 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. In those roles, she was responsible for overall management of the integrated academic health system, encompassing the UC Davis Medical Center, the UC Davis School of Medicine and the physician group known as the UC Davis Medical Group. She oversaw the UC Davis Medical Center’s 528-bed, acute-care hospital and all its affiliated outpatient centers, including a primary care network of physician practices in 15 northern California communities. From 1996 to 1998, Ms. Marsh was the Senior Vice President for Professional Services and Managed Care at University of Pennsylvania Health System, which had over $2 billion in annual revenues, four owned hospitals and five affiliated hospitals. Ms. Marsh currently serves as a member of the Board of Directors of the California Healthcare Association and the Integrated Healthcare Association, the Blue Cross of California Hospital Relations Committee, and as a member of the national Healthcare Research and Development Institute. Ms. Marsh holds an M.P.H. in health administration and an M.B.A. in accounting from Columbia University.

**Michael J. Peterson, Chief Operating Officer.** Michael J. Peterson became Chief Operating Officer of Stanford Hospital and Clinics in 2002. Prior to his appointment, Mr. Peterson served as Interim President and Chief Executive Officer of Stanford Hospital and Clinics from May 2001 until the appointment of Ms. Marsh in April 2002 after which Mr. Peterson served as Interim Chief Operating Officer until October 2002 when he became the permanent Chief Operating Officer. From 1996 to 2001, Mr. Peterson was a partner with the Peterson Network, LTD, a firm that provided interim and transitional executive leadership to healthcare organizations. From 1990 to 1995, Mr. Peterson was President and Chief Executive Officer of Mercy Health System (now Catholic Healthcare Partners) headquartered in Cincinnati, Ohio. He is a founding member of Health Insights Foundation, a health executive educational organization, and he is a Diplomat of the American College of Healthcare Executives. Mr. Peterson holds an M.H.A. degree from the University of Michigan Graduate School of Public Health.
Roy T. Santarella, Chief Financial Officer. Roy Santarella became the acting Chief Financial Officer of Stanford Hospital and Clinics in July 2001, and permanent Chief Financial Officer in December 2001. Prior to joining the executive team of Stanford Hospital and Clinics, Mr. Santarella served for four years as President and Chief Operating Officer of a company he founded and owned, PROGRADE Technology, Inc., an information technology firm providing healthcare connectivity. Before starting his own company, Mr. Santarella served as Chief Financial Officer of Iowa Health System and later President and Chief Executive Officer of INTEGRA Health, an Iowa Health System affiliate. For 12 years, Mr. Santarella was Chief Financial Officer and later Chief Operating Officer of Mercy Health System of Western Ohio (now Catholic Healthcare Partners) in Springfield, Ohio. Mr. Santarella holds a B.B.A. degree in Accounting and Management Science from Hofstra University and an M.B.A. in Finance from Adelphi University in New York.

Carolyn D. Byerly, Chief Information Officer. Carolyn Byerly became the Chief Information Officer at Stanford Hospital and Clinics 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.

Michael J. Calhoun, Vice President for Strategic Planning and Marketing. Michael Calhoun became the Vice President for Strategic Planning and Marketing at Stanford Hospital and Clinics in November 2002. Mr. Calhoun previously served as a Principal in CSC Global Healthcare Group and APM Management Consulting, and as Vice President at Lewin-VHI, Inc, a health care policy consulting firm. Mr. Calhoun has served as a Board Member of the Morehouse School of Medicine, as Chief of Staff at the U.S Department of Health and Human Services, as Vice President of the US International Trade Commission, and as Assistant Minority Counsel for International Trade for the US House of Representatives Committee on Ways and Means. Mr. Calhoun holds a B.A. degree from Princeton University and a J.D. from Harvard Law School.

Gerald M. Shefren, M.D., Vice President Ambulatory Services. Dr. Gerald Shefren brings experience as a physician and medical director to his role as Vice President for Ambulatory Services at Stanford Hospital and Clinics. Currently serving as Chief of the General Gynecology Division at Stanford University, Dr. Shefren began stepping into his new role overseeing clinics and outpatient services at Stanford Hospital and Clinics in April of 2003. Formerly, Dr. Shefren was Executive Medical Director of Lifeguard, a large health maintenance organization, Chief Medical Officer of Camino Healthcare, and President and Chair of the Board of two medical groups and a surgery center. Dr. Shefren received his medical degree from the University of Illinois and completed his residency at George Washington University in Washington, D.C.

Sridhar Seshadri, Vice President for Process Excellence. Sridhar Seshadri joined the senior management team at Stanford Hospital and Clinics in June, 2003. As Vice President for Process Excellence, he will direct workflow and process redesign for improved efficiency, effectiveness and satisfaction. Prior to coming to Stanford, Mr. Seshadri was a Vice President and Partner at Cerner Consulting, and a former Vice President and General Manager for General Electric - Medical Systems, Healthcare Solutions. Mr. Seshadri has an M.B.A. degree from the Wharton School at the University of Pennsylvania, and an M.S. degree in Electrical Engineering from Drexel University in Philadelphia, Pennsylvania.
SERVICES, FACILITIES AND OPERATIONS

Stanford Hospital and Clinics operates Stanford Hospital (described below) on the campus of Stanford University, and primary, specialty and subspecialty clinics both on the University Campus and in nearby communities (the “Hospital and Clinics”).

Principal Patient Services

The Hospital and Clinics provide comprehensive primary and secondary care to local residents of the San Francisco Bay Area. In addition, the Hospital and Clinics provide many highly specialized referral services to patients residing in northern California and beyond. See “Service Area” below.

Management of the Corporation has determined to concentrate its planning, development and marketing on four Strategic Clinical Services. Historically, these services have been strengths of both the Hospital and Clinics and the School of Medicine. Such services are research and innovation intensive services, both strengths in management’s view, and many procedures in these services lines are eligible for higher than average payments from third party payors. Management intends, by its planning, development and marketing, to have the Hospital and Clinics be recognized as a leading center in the United States in each of these Strategic Clinical Services. Brief descriptions of the four Strategic Clinical Services follow. See also Table 8 below.

Cardiac Care. The Hospital is a referral center for the medical and surgical treatment of end-stage heart failure. Treatments available at the Hospital 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 defibrillators and other electrophysiology treatments for heart rhythm problems, minimally invasive heart surgery and cardiac imaging. Table 8 below shows the number of various cardiovascular treatments, including surgeries and transplants, provided in the three fiscal years ended August 31, 2002 and for the six-month periods ended February 28, 2002 and 2003. Advanced invasive devices to treat coronary artery disease and heart failure have also been developed as a part of this Strategic Clinical Service.

Cancer Treatment. The Hospital and Clinics offer 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, 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, including particularly chemotherapy, are now performed in the outpatient setting of the Clinics. Table 8 below shows the number of treatments, including chemotherapy, provided in the three fiscal years ended August 31, 2002 and for the six-month periods ended February 28, 2002 and 2003. Treatment of brain cancer is also provided and is described below under “Neurosciences.” Many clinical trials are conducted at the Hospital and Clinics which provide patients access to these experimental treatments.

The Corporation is currently constructing a new outpatient facility that will support its cancer programs, among others. The 220,000 square foot ambulatory care facility is expected to be opened in March 2004 and will accommodate an outpatient cancer and ambulatory treatment center. This building will include new facilities for radiation oncology and gene therapies and an ambulatory treatment center that will permit patients undergoing or recovering from treatment to be accommodated for up to 24 hours.
The Corporation expects to apply a portion of the proceeds of the 2003 Bonds to pay and reimburse itself for previous payment of costs of this facility.

**Solid Organ Transplantation (Abdominal).** Services provided include kidney, simultaneous kidney/pancreas, and liver and intestinal transplantation. Such surgical transplantation services are in addition to heart, heart/lung and lung transplant services described above under “Cardiac Care.” Table 8 below provides data for services provided in the three fiscal years ended August 31, 2002 and for the six-month periods ended February 28, 2002 and 2003.

**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 cyber knife (developed by School of Medicine faculty at the Hospital) and radiosurgery for deep-seated brain tumors and brain metastases. An extensive cerebrovascular surgery program, including neuro-interventional radiology, treats patients with aneurysms, complex vascular malformations, and stroke. The Hospital and Clinics also offer 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. Table 8 below provides data for services provided in the three fiscal years ended August 31, 2002 and for the six-month periods ended February 28, 2002 and 2003.

**Other Clinical Services.** In addition to the four Strategic Clinical Services, in the view of management, the Hospital and Clinics are a recognized leader in providing a number of other services, including primary care and internal medicine, and a number of other programs, including: asthma, treatment for 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.

**Additional Facility Needs**

Management of the Corporation has determined that facilities in addition to those being provided through the current Project are needed in order to improve the cost effectiveness and efficiency of delivering patient services (primarily to outpatients), to improve competitiveness by delivering certain services in a pleasant, off-campus setting and to house additional administrative services, including its information technology department.

To meet these facility needs, management is currently negotiating to purchase a property in a nearby community. The subject property currently contains a large office building that would require renovation for the Corporation’s use. Management anticipates that the total cost of this property, including both purchase and renovation, will be approximately $120 million. Management is considering a number of methods of financing this purchase and renovation, including internal cash, joint ventures with one or more parties, off-balance-sheet lease financing and indebtedness or a combination of these methods. If the Corporation does not complete this purchase, management expects to continue its efforts to provide additional facilities to meet the needs described in the preceding paragraph. Management
estimates that the cost of other suitable properties would not be materially lower than the property described above.

Regardless of the financing method or methods chosen, amortization of the cost of any property purchased and its renovation through the Corporation rate structure will be necessary.

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 important schools of medicine in the United States. It offers an M.D. program, M.A. and Ph.D. programs in various areas of biosciences, intern and residency programs at Stanford Hospital and Clinics 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 states 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 translation of knowledge and scientific innovation gained through research at and through the School of Medicine to clinical applications. The Hospital and Clinics provide the settings where these clinical applications are delivered to adult patients.

Joint Strategic Initiatives. During 2003, the School of Medicine and the Corporation have begun a collaboration to: (i) develop a clinical strategy to address areas of clinical excellence and patient satisfaction; and (ii) enhance translational medicine as a distinguishing feature of the School of Medicine and the Hospital and Clinics.

Development of collaborative structures between the School of Medicine and the Corporation include:

- Establishment of 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 each of the 16 departments of the School of Medicine as well as key officers of the Corporation.

- Joint planning on information technology involving the University, including the School of Medicine, and the Corporation to integrate the information technology priorities.

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

- Collaboration in meeting privacy and security requirements.

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 plans to create various Institutes of Medicine that align research, education and clinical efforts in areas such as cardiovascular medicine, neuroscience, immunology and infectious diseases. The first such Institute has been established, the Stanford Institute in Cancer/Stem Cell Biology and Medicine. The School of Medicine also plans to develop inter-departmental clinical centers, for example, a vascular center, to promote linkage between the School of Medicine and the Hospital and Clinics in the care delivered to the patient.
Research Projects of the School of Medicine Related to Strategic Clinical Services. Current ongoing research projects being conducted at the School of Medicine and the Hospital include:

- **Cardiothoracic Surgery.** (i) use of molecular biology, biochemistry and cellular immunology to investigate activation and effector function of T lymphocytes in immune responses to transplant procedures; (ii) discovery, preclinical and clinical development of novel immunosuppressive molecules for use in cell and organ transplantation; (iii) diseases of the aorta, aneurysms, dissections, Marfan's disease; inflammatory responses to cardiopulmonary bypass and adaptive responses of arteries to flow characteristics in congenital heart disease and investigation of placental responses to fetal extracorporeal circulation and bypass techniques.

- **Vascular Surgery.** (i) research on vascular biology, arterial remodeling and aneurysm development; and (ii) blood dynamics in atherosclerosis and pathogenesis of aortic aneurysms.

- **Radiation Oncology-Radiation and Cancer Biology.** (i) Using a combination of biochemical, cell biological and mouse genetic approaches to tumor suppression; and (ii) x-ray and electron beam dose modeling in individual radiation oncology patients; and (iii) bone marrow transplantation (experimental and clinical) in treatment of leukemia, lymphoma, Hodgkin’s disease, hereditary disorders, immune defects and selected solid tumors.

- **Transplant Surgery.** (i) investigation of possible fetal pancreas transplantation for treatment of diabetes. (ii) cloning of a cell receptor likely involved in activation and effector functions of a type of cell important in acceptance of transplantations.

- **Neuroscience and Neurosurgery.** (i) investigation of application of digital signal processing techniques in clinical neurophysiology for diagnosis of neurological disorders and rehabilitation; (ii) research in the genetic basis for autoimmune neural disease; immune response in Parkinson's and Alzheimer's Diseases; and role of certain proteins in Huntington's Disease; (iii) research in pre-operative planning and intra-operative volumetric image navigation techniques and apparatuses, including image enhanced endoscopy, three dimensional ultrasonic navigation and fluoroscopic registration; and (iv) development of tissue grafts for treatment of Parkinson's and Alzheimer’s Diseases using genetically engineered neural stem cells.

All contracts for research projects and clinical trials are between the contracting party and the University. All grants and revenue related to research and clinical trials accrue to the University, for the benefit of the School of Medicine.

**Operational Relationships among the Corporation, the University and LPCH**

**Professional Services Agreement.** The medical professional services of the clinical faculty of the School of Medicine are provided to the Corporation under a professional services agreement (the “PSA”), under which the Corporation bills and collects for professional services, including hospital-based physicians, provided at the Hospital and Clinics by the School of Medicine faculty physicians, and compensates the University for such services. In 2002, the Corporation paid the University approximately $109 million under the PSA. The professional services revenue is reported as a component of total patient revenues on the statement of operations of the Corporation, and the payment under the PSA is included in purchased services as are other payments from the Corporation to the University.
Other Transactions with Stanford University School of Medicine and Stanford University. The Corporation records operating expenses for all transfers to the University for the benefit of the School of Medicine. Services purchased from the School of Medicine include physician services under the PSA described above. In addition, the Corporation has made strategic support payments in amounts and of types that have been determined from year to year by agreement of the Corporation and the School of Medicine during the budgeting process. Such payments are reported as purchased services in the statement of operations and changes in net assets and totaled approximately $30 million in the fiscal year ended August 31, 2002.

Also included in purchased services on the statement of operations and changes in net assets are the cost of other services purchased from the University. These services include telecommunications, transportation, certain utilities, and certain administrative services, including legal, internal audit and risk management. The Corporation’s cost of such services in fiscal year 2002 was approximately $44.4 million.

Shared Services and Purchased Services. The Corporation and LPCH share certain departments, including information systems, human resources, managed care contracting, payroll and materials management. The costs for these shared services are allocated between the Corporation and LPCH based on management’s best estimates of cost. In the fiscal year ended August 31, 2002, the cost of shared services was $104 million, of which $13.3 million was recovered by the Corporation from LPCH. The Corporation also provides certain services to LPCH, including operating room services, cardiac catheterization, interventional radiology, radiation oncology and laboratory services, as well as drugs, blood products and other expendables. The Corporation charges LPCH for the services and products purchased by LPCH based on either (i) a percentage of charges which is intended to approximate actual cost or (ii) on the basis of actual cost per procedure. In the fiscal year ended August 31, 2002, LPCH paid the Corporation $24.9 million. LPCH has advised the Corporation that it intends to construct and open six operating suites in its facilities in 2005. A reduction in the purchase of services and products by LPCH from the Corporation would reduce volumes of surgeries and outpatient transactions as well as related revenues and expenses of the Corporation.

For additional information, see Footnote 3 of the audited financial statements of the Corporation included in Appendix B-1.

Bed Complement

As of August 31, 2002, the licensed and operational bed complement of Stanford Hospital was allocated among the following services:


TABLE 1

Bed Complement by Service

Fiscal Year 2002

<table>
<thead>
<tr>
<th>Service</th>
<th>Licensed</th>
<th>Operational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical/ Surgical</td>
<td>450</td>
<td>306</td>
</tr>
<tr>
<td>Intensive Care</td>
<td>67</td>
<td>58</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Coronary Care</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Psychiatric</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Skilled Nursing (1)</td>
<td>22</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>594</strong></td>
<td><strong>419</strong></td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics Records.
Confirmation pending on the following licensure changes:
(1) The Corporation requested suspension of 22 SNF beds effective July 9, 2002.

Description of Admitting Medical Staff

As of February 1, 2003, 1,416 physicians comprised the admitting medical staff of the Corporation. 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. Eight hundred ninety-five (895) members of the admitting medical staff are full time faculty members (63% of the total staff) and 521 members of the admitting medical staff are community physicians (37% of the total staff). Approximately 81% of the Hospital and Clinics 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 February 1, 2003

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Number of Staff</th>
<th>Average Age</th>
<th>Number of Staff Who are Board Certified</th>
<th>Percentage of Staff Who are Board Certified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anesthesiology</td>
<td>110</td>
<td>45</td>
<td>81</td>
<td>74%</td>
</tr>
<tr>
<td>Emergency Medicine</td>
<td>47</td>
<td>42</td>
<td>38</td>
<td>81</td>
</tr>
<tr>
<td>Family Practice</td>
<td>40</td>
<td>46</td>
<td>35</td>
<td>88</td>
</tr>
<tr>
<td>Medicine</td>
<td>431</td>
<td>48</td>
<td>379</td>
<td>88</td>
</tr>
<tr>
<td>Obstetrics/Gynecology</td>
<td>81</td>
<td>46</td>
<td>59</td>
<td>73</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>84</td>
<td>46</td>
<td>58</td>
<td>69</td>
</tr>
<tr>
<td>Pathology</td>
<td>45</td>
<td>49</td>
<td>33</td>
<td>73</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>141</td>
<td>47</td>
<td>132</td>
<td>94</td>
</tr>
<tr>
<td>Psychiatry</td>
<td>120</td>
<td>48</td>
<td>71</td>
<td>59</td>
</tr>
<tr>
<td>Radiology</td>
<td>88</td>
<td>46</td>
<td>66</td>
<td>75</td>
</tr>
<tr>
<td>Surgery</td>
<td>229</td>
<td>49</td>
<td>193</td>
<td>84</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,416</strong></td>
<td><strong>47</strong></td>
<td><strong>1,145</strong></td>
<td><strong>81%</strong></td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics 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 group and the percentage of admissions for each age group.

### TABLE 3

Admissions by Physician Age Group  
Fiscal Year 2002

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Number of Physicians in Age</th>
<th>Percent of Physicians in Age</th>
<th>Percent Of Total Admissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-34</td>
<td>160</td>
<td>11.3%</td>
<td>6.5%</td>
</tr>
<tr>
<td>35-44</td>
<td>499</td>
<td>35.2%</td>
<td>38.9</td>
</tr>
<tr>
<td>45-54</td>
<td>437</td>
<td>30.9%</td>
<td>29.8</td>
</tr>
<tr>
<td>55-64</td>
<td>221</td>
<td>15.6%</td>
<td>19.2</td>
</tr>
<tr>
<td>65+</td>
<td>99</td>
<td>7.0%</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,416</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics Records.
The following table shows the top ten admitters based on their specialty for the period indicated.

### TABLE 4

Top Ten Admitting Physicians Based on Patient Volume  
Fiscal Year 2002

<table>
<thead>
<tr>
<th>Rank/Physician</th>
<th>Admissions</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Neurosurgery</td>
<td>333</td>
<td>40</td>
</tr>
<tr>
<td>2. Orthopedic</td>
<td>299</td>
<td>51</td>
</tr>
<tr>
<td>3. Neurosurgery</td>
<td>297</td>
<td>58</td>
</tr>
<tr>
<td>4. Thoracic Surgery</td>
<td>284</td>
<td>63</td>
</tr>
<tr>
<td>5. Physical Medicine/Rehabilitation</td>
<td>270</td>
<td>45</td>
</tr>
<tr>
<td>6. General Internal Medicine</td>
<td>267</td>
<td>35</td>
</tr>
<tr>
<td>7. Neurosurgery</td>
<td>264</td>
<td>51</td>
</tr>
<tr>
<td>8. Oncologist</td>
<td>252</td>
<td>55</td>
</tr>
<tr>
<td>9. Endocrinology</td>
<td>240</td>
<td>75</td>
</tr>
<tr>
<td>10. General Internal Medicine</td>
<td>229</td>
<td>33</td>
</tr>
</tbody>
</table>

**Total Admissions/Average Age**: 2,735 / 51

Source: Stanford Hospital and Clinics Records.

### Service Area

Stanford Hospital and Clinics has classified its service area into four geographical markets: Local and Regional, comprising 91% of volume and approximately 89% of revenues in fiscal year 2002; and California and National/International markets comprising the remaining 9% and 11% respectively. In the Local Market, Stanford Hospital and Clinics provide a full range of care. In the Regional and California and National/International Markets, Stanford Hospital and Clinics provides primarily tertiary and quaternary care. The composition of these markets is described below:

- **Local Market** – San Mateo and Santa Clara counties comprising Stanford Hospitals and Clinics’ immediate service area
- **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 source of international cases.
San Mateo and Santa Clara counties comprise the Local Market for the Hospital and Clinics. This two-county area has been the predominant source of inpatient volume for the Hospital and Clinics, accounting historically for about 60%-65% of inpatient volume.

The following table provides Local Market and Regional Markets volumes and revenues information concerning Stanford Hospital and Clinics and certain demographic information about the Local Market and the Regional Markets.

**TABLE 5**

Local and Regional Markets
Stanford Hospital and Clinics Volume
and Revenues and Certain Demographic Information

<table>
<thead>
<tr>
<th>Local and Regional Markets</th>
<th>% SHC Volume 2002&lt;sup&gt;1&lt;/sup&gt;</th>
<th>% SHC Revenues 2002&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Actual Population 2000&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Projected Population 2007&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Projected % Population Change&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Median Age 2000&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Average Household Income 2001&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Market</td>
<td>63.0 %</td>
<td>53.0 %</td>
<td>2,385,508</td>
<td>2,633,648</td>
<td>10.4</td>
<td>36</td>
<td>$125,348</td>
</tr>
<tr>
<td>Regional Market:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Bay</td>
<td>10.3 %</td>
<td>11.5 %</td>
<td>2,786,516</td>
<td>3,048,223</td>
<td>9.4</td>
<td>36</td>
<td>$ 95,447</td>
</tr>
<tr>
<td>Central Coast</td>
<td>7.8 %</td>
<td>10.8 %</td>
<td>961,201</td>
<td>1,080,821</td>
<td>12.4</td>
<td>36</td>
<td>$ 81,556</td>
</tr>
<tr>
<td>Central Valley</td>
<td>7.3 %</td>
<td>10.6 %</td>
<td>3,860,870</td>
<td>4,308,075</td>
<td>11.6</td>
<td>32</td>
<td>$ 54,294</td>
</tr>
<tr>
<td>North Bay</td>
<td>2.9 %</td>
<td>3.4 %</td>
<td>1,606,846</td>
<td>1,777,452</td>
<td>10.6</td>
<td>41</td>
<td>$ 91,946</td>
</tr>
</tbody>
</table>

<sup>1</sup>Source: Stanford Hospital and Clinics Records.

<sup>2</sup>Source: Solucient Market Planner Plus.

The table on the following page provides the discharge data for calendar years 1998, 1999 and 2000 (the most recent years for which such data are available) for the Hospital and Clinics and the hospitals in the Local Market which management has identified as competitors of the Hospital and Clinics. Table 6 also provides case mix index data for calendar year 2000. The case mix index (the “Case Mix Index”) is an indicator of the intensity of the services provided:
TABLE 6

Local Market Area Competitors
Discharge and Case Mix Index Data

<table>
<thead>
<tr>
<th></th>
<th>Calendar Year 1998</th>
<th>Calendar Year 1999</th>
<th>Calendar Year 2000</th>
<th>Case Mix Index Calendar Year 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Discharges</td>
<td>%</td>
<td>Discharges</td>
<td>%</td>
</tr>
<tr>
<td>Stanford Hospital and Clinics</td>
<td>13,240</td>
<td>10.4 %</td>
<td>13,373</td>
<td>10.5 %</td>
</tr>
<tr>
<td></td>
<td>12,706</td>
<td>10.1 %</td>
<td></td>
<td>1.8058</td>
</tr>
<tr>
<td>Santa Clara Valley Medical Center</td>
<td>11,302</td>
<td>8.9 %</td>
<td>11,760</td>
<td>9.2 %</td>
</tr>
<tr>
<td></td>
<td>12,092</td>
<td>9.7 %</td>
<td></td>
<td>1.0699</td>
</tr>
<tr>
<td>Mills-Peninsula Medical Center</td>
<td>12,235</td>
<td>9.6 %</td>
<td>11,657</td>
<td>9.1 %</td>
</tr>
<tr>
<td></td>
<td>11,707</td>
<td>9.3 %</td>
<td></td>
<td>1.0972</td>
</tr>
<tr>
<td>Good Samaritan Hospital – Santa Clara</td>
<td>11,077</td>
<td>8.7 %</td>
<td>11,198</td>
<td>8.8 %</td>
</tr>
<tr>
<td></td>
<td>10,821</td>
<td>8.6 %</td>
<td></td>
<td>0.8485</td>
</tr>
<tr>
<td>El Camino Hospital</td>
<td>11,313</td>
<td>8.9 %</td>
<td>11,512</td>
<td>9.0 %</td>
</tr>
<tr>
<td></td>
<td>10,537</td>
<td>8.4 %</td>
<td></td>
<td>1.0003</td>
</tr>
<tr>
<td>Kaiser – Santa Clara</td>
<td>8,881</td>
<td>7.0 %</td>
<td>9,255</td>
<td>7.3 %</td>
</tr>
<tr>
<td></td>
<td>10,183</td>
<td>8.1 %</td>
<td></td>
<td>0.9258</td>
</tr>
<tr>
<td>O’Connor Hospital</td>
<td>7,770</td>
<td>6.1 %</td>
<td>7,589</td>
<td>5.9 %</td>
</tr>
<tr>
<td></td>
<td>7,355</td>
<td>5.9 %</td>
<td></td>
<td>1.0381</td>
</tr>
<tr>
<td>Kaiser – Santa Teresa Community Hospital</td>
<td>5,415</td>
<td>4.2 %</td>
<td>6,072</td>
<td>4.8 %</td>
</tr>
<tr>
<td></td>
<td>6,714</td>
<td>5.4 %</td>
<td></td>
<td>0.9929</td>
</tr>
<tr>
<td>Regional Medical Center of San Jose</td>
<td>7,253</td>
<td>5.7 %</td>
<td>7,019</td>
<td>5.5 %</td>
</tr>
<tr>
<td></td>
<td>6,296</td>
<td>5.0 %</td>
<td></td>
<td>0.8642</td>
</tr>
<tr>
<td>Sequoia Hospital</td>
<td>7,698</td>
<td>6.0 %</td>
<td>7,197</td>
<td>5.6 %</td>
</tr>
<tr>
<td></td>
<td>6,252</td>
<td>5.0 %</td>
<td></td>
<td>1.3403</td>
</tr>
<tr>
<td>Seton Medical Center</td>
<td>6,525</td>
<td>5.1 %</td>
<td>6,026</td>
<td>4.7 %</td>
</tr>
<tr>
<td></td>
<td>6,071</td>
<td>4.8 %</td>
<td></td>
<td>1.4448</td>
</tr>
<tr>
<td>San Jose Medical Center</td>
<td>6,370</td>
<td>5.0 %</td>
<td>6,376</td>
<td>5.0 %</td>
</tr>
<tr>
<td></td>
<td>5,996</td>
<td>4.8 %</td>
<td></td>
<td>1.4423</td>
</tr>
<tr>
<td>Kaiser – Redwood City</td>
<td>3,890</td>
<td>3.0 %</td>
<td>4,075</td>
<td>3.2 %</td>
</tr>
<tr>
<td></td>
<td>4,234</td>
<td>3.4 %</td>
<td></td>
<td>1.1656</td>
</tr>
<tr>
<td>Tenet – Community Hospital of Los Gatos</td>
<td>3,955</td>
<td>3.1 %</td>
<td>3,894</td>
<td>3.1 %</td>
</tr>
<tr>
<td></td>
<td>4,107</td>
<td>3.3 %</td>
<td></td>
<td>1.1326</td>
</tr>
<tr>
<td>Kaiser – South San Francisco</td>
<td>3,690</td>
<td>2.9 %</td>
<td>3,879</td>
<td>3.0 %</td>
</tr>
<tr>
<td></td>
<td>4,088</td>
<td>3.3 %</td>
<td></td>
<td>1.2516</td>
</tr>
<tr>
<td>San Mateo County General Hospital</td>
<td>3,218</td>
<td>2.5 %</td>
<td>3,105</td>
<td>2.4 %</td>
</tr>
<tr>
<td></td>
<td>3,039</td>
<td>2.4 %</td>
<td></td>
<td>1.0729</td>
</tr>
<tr>
<td>Saint Louise Medical Center – Gilroy Campus</td>
<td>1,932</td>
<td>1.5 %</td>
<td>2,022</td>
<td>1.6 %</td>
</tr>
<tr>
<td></td>
<td>2,520</td>
<td>2.0 %</td>
<td></td>
<td>0.8644</td>
</tr>
<tr>
<td>Other</td>
<td>1,836</td>
<td>1.5 %</td>
<td>1,592</td>
<td>1.2 %</td>
</tr>
<tr>
<td></td>
<td>517</td>
<td>0.4 %</td>
<td></td>
<td>3.0858</td>
</tr>
<tr>
<td>Total</td>
<td>127,600</td>
<td>100 %</td>
<td>127,601</td>
<td>100 %</td>
</tr>
<tr>
<td></td>
<td>125,235</td>
<td>100 %</td>
<td></td>
<td>3.0858</td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics Records
(incorporating state utilization data on discharges and University Hospital Consortium data on case mix indices).

As indicated in the Case Mix Index data in Table 6, the Corporation has a substantially higher Case Mix Index than competitor hospitals, which indicates significantly greater intensity and complexity of its treatment. Competitor hospitals primarily focus on lower complexity and intensity cases. While also providing a significant amount of care at this level, the Corporation, in contrast, also cares for the sickest patients and most challenging cases in 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 University of California, San Francisco Medical Center (“UCSF Medical Center”), 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 four Strategic Clinic Services reflects its opinion that higher acuity services will produce higher operating margins than lower acuity services.

The UCSF Medical Center is the only institution in or near the Corporation’s Local and Regional Markets that offers a range of tertiary and quaternary services that are comparable to the range of services available at the Hospital and Clinics.
Market Share Map

The map below indicates the locations of the two county Local Market and the Regional Markets.

Source: BDC Advisors, LLC.

Market Strategy

Overall, the Corporation’s strategic plan calls for near-term intensive growth in the Strategic Clinical Services and other services in which Stanford Hospital and Clinics 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 four Strategic Clinical Service lines: Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal) 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 Stanford Hospital and Clinics’ clinical innovations already being applied in these services. See “School of Medicine” herein. The growth strategy also provides for more rapid translation of leading-edge 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 and delivery systems, selectively managing/operating subspecialty services for other institutions and delivery systems, developing outreach infrastructures that mix both onsite presence and web-based care delivery and second opinion technologies, and expanded contracting with payers for selected clinical carve-outs in these strategic services.

The Corporation’s strategic plan envisions the Regional, California and National, and International markets ultimately providing a significantly larger share of volume and revenue than is currently the case. This increased share is expected to come from significantly increased volumes from higher complexity tertiary and quaternary cases.

An increase in higher complexity tertiary and quaternary cases is expected to result from implementation of one or more of the following strategies by the Corporation and the School of Medicine:

- 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, concentration on more complex and difficult revascularization procedures, such as CABG and PTCA procedures.
- In the Cancer Treatment Strategic Clinical Service, emphasizing the distinctive treatments provided by Stanford Hospital and Clinics, including bone marrow transplants, radiation therapy, and minimally invasive surgery techniques, in an effort to increase volume in the breast, colorectal, male urology and multiple myeloma subcomponents of Cancer Treatment.
- 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 Neurosciences Strategic Clinical Service, emphasizing chemo, biologic agent and gene and radiation therapies for spine care and neuro-oncology, including the CyberKnife.

Stanford Hospital and Clinics intends to strengthen its Local Market presence by locating selected outpatient subspecialty services in selected local communities. The services provided in these locations are expected to be comprehensive, focused on Stanford Hospital and Clinics’ innovative clinical care, and will be highly patient-focused.
Utilization

A summary of significant statistical data for the Corporation for the three fiscal years ended August 31, 2002 and for the six-month periods ended February 28, 2003 and 2002 is presented in the following table.

**TABLE 7**

<table>
<thead>
<tr>
<th>Historical Utilization</th>
<th>Six Months Ended February 28</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Admissions</strong></td>
<td></td>
</tr>
<tr>
<td>Acute</td>
<td>20,019</td>
</tr>
<tr>
<td>Behavioral Health</td>
<td>755</td>
</tr>
<tr>
<td>Rehab/SNF*</td>
<td>278</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21,052</td>
</tr>
<tr>
<td><strong>Patient Days</strong></td>
<td></td>
</tr>
<tr>
<td>Acute</td>
<td>92,518</td>
</tr>
<tr>
<td>Behavioral Health</td>
<td>6,518</td>
</tr>
<tr>
<td>Rehab/SNF</td>
<td>3,776</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102,812</td>
</tr>
<tr>
<td><strong>Average Daily Census</strong></td>
<td></td>
</tr>
<tr>
<td>Acute</td>
<td>253.5</td>
</tr>
<tr>
<td>Behavioral Health</td>
<td>17.9</td>
</tr>
<tr>
<td>Rehab/SNF</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>281.7</td>
</tr>
<tr>
<td><strong>Average Length of Stay</strong></td>
<td></td>
</tr>
<tr>
<td>Acute</td>
<td>4.6</td>
</tr>
<tr>
<td>Behavioral Health</td>
<td>8.6</td>
</tr>
<tr>
<td>Rehab/SNF</td>
<td>13.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Case Mix Index</strong></td>
<td>1.80</td>
</tr>
<tr>
<td><strong>Emergency room visits</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>38,226</td>
</tr>
<tr>
<td><strong>Short Stay OP procedures</strong></td>
<td>26,944</td>
</tr>
<tr>
<td><strong>Other Outpatient accounts</strong></td>
<td>222,152</td>
</tr>
<tr>
<td><strong>Surgeries (includes LPCH)</strong></td>
<td>222,152</td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics Records.
* Utilization of the licensed SNF beds was discontinued by the Corporation effective in 2002.
** Other outpatient accounts are billing events which may include multiple visits.
*** Surgeries include LPCH because, during the times covered by the table, there were no operating rooms at LPCH for either inpatient or outpatient surgeries. LPCH has indicated that it expects to open six operating suites in its fiscal year 2005 (See “Operational Relationships Among the School of Medicine, the Corporation and LPCH – Shared Services and Purchased Services” on page A-12).

Strategic Clinical Services Utilization

As indicated earlier, management of the Corporation has decided to concentrate its efforts in the four Strategic Clinical Services. The following table shows the volume of inpatient discharges and outpatient transactions, which are billing events which may include multiple visits, in the Strategic
Clinical Services.

**TABLE 8**
Strategic Clinical Services

<table>
<thead>
<tr>
<th>Neurosciences**</th>
<th>Inpatient</th>
<th>Outpatient</th>
<th>Inpatient</th>
<th>Outpatient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epilepsy</td>
<td>156</td>
<td>190</td>
<td>169</td>
<td>779</td>
</tr>
<tr>
<td>Movement Disorders</td>
<td>37</td>
<td>45</td>
<td>52</td>
<td>181</td>
</tr>
<tr>
<td>Neuro-Oncology</td>
<td>212</td>
<td>213</td>
<td>226</td>
<td>866</td>
</tr>
<tr>
<td>Spine</td>
<td>609</td>
<td>660</td>
<td>772</td>
<td>53</td>
</tr>
<tr>
<td>Stroke</td>
<td>531</td>
<td>570</td>
<td>563</td>
<td>769</td>
</tr>
<tr>
<td>Other</td>
<td>492</td>
<td>385</td>
<td>464</td>
<td>4,203</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,037</strong></td>
<td><strong>2,063</strong></td>
<td><strong>2,246</strong></td>
<td><strong>6,851</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cardiac*</th>
<th><strong>Inpatient</strong></th>
<th><strong>Outpatient</strong></th>
<th><strong>Inpatient</strong></th>
<th><strong>Outpatient</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aortic surgeries</td>
<td>200</td>
<td>173</td>
<td>161</td>
<td>1</td>
</tr>
<tr>
<td>Arrhythmia</td>
<td>174</td>
<td>196</td>
<td>226</td>
<td>227</td>
</tr>
<tr>
<td>Cardiomyopathy (transplants, VAD)</td>
<td>228</td>
<td>253</td>
<td>241</td>
<td>2</td>
</tr>
<tr>
<td>Congenital adult</td>
<td>6</td>
<td>10</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Revascularization (CABG/PTCA)</td>
<td>1,265</td>
<td>1,241</td>
<td>811</td>
<td>103</td>
</tr>
<tr>
<td>Valve surgeries</td>
<td>334</td>
<td>329</td>
<td>277</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,037</strong></td>
<td><strong>2,063</strong></td>
<td><strong>2,246</strong></td>
<td><strong>6,851</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transplantation -- abdominal*</th>
<th><strong>Liver</strong></th>
<th>n/a</th>
<th>n/a</th>
<th>n/a</th>
<th>29</th>
<th>19</th>
<th>n/a</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Kidney</strong></td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>26</td>
<td>28</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td><strong>Kidney/Pancreas</strong></td>
<td>n/a</td>
<td>n/a</td>
<td>3</td>
<td>n/a</td>
<td>n/a</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td><strong>Pancreas</strong></td>
<td>n/a</td>
<td>n/a</td>
<td>1</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>181</td>
<td>117</td>
<td>143</td>
<td>20</td>
<td>13</td>
<td>15</td>
<td>117</td>
<td>156</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>245</strong></td>
<td><strong>193</strong></td>
<td><strong>276</strong></td>
<td><strong>20</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Cancer Diagnosis***       | **Brain** | 87  | 85  | 94  | 662 | 626 | 731 | 34  | 50  | 367 | 296 |
|                           | **Breast** | 205 | 179 | 127 | 2,800 | 3,014 | 3,937 | 67 | 52 | 1,870 | 2,001 |
|                           | **Colorectal** | 122 | 123 | 139 | 864  | 965  | 1,510 | 59 | 69 | 670 | 844 |
|                           | **Esophagus** | 12  | 14  | 18  | 151  | 122  | 194  | 12  | 3  | 92  | 95  |
|                           | **Gyn**     | 116 | 113 | 155 | 1,011 | 640  | 1,035 | 70  | 60 | 465 | 566 |
|                           | **Head/Neck** | 113 | 111 | 94  | 570  | 604  | 883  | 58  | 54 | 400 | 543 |
|                           | **Leukemia** | 117 | 135 | 157 | 1,541 | 1,965 | 2,432 | 77  | 66 | 1,073 | 1,346 |
|                           | **Liver**   | 39  | 40  | 40  | 497  | 469  | 575  | 15  | 21 | 264 | 336 |
|                           | **Lung**    | 106 | 100 | 99  | 783  | 713  | 967  | 56  | 53 | 405 | 607 |
|                           | **Lymphoma** | 166 | 184 | 176 | 3,197 | 4,142 | 6,016 | 91  | 99 | 2,817 | 3,081 |
|                           | **Male g/u** | 237 | 306 | 305 | 1,537 | 2,800 | 4,001 | 155 | 159 | 1,837 | 2,044 |
|                           | **Multiplemyeloma** | 20  | 12  | 20  | 679  | 752  | 1,099 | 11  | 8  | 477 | 605 |
| **Other**                 | 2,512      | 2,456 | 2,582 | 9,963 | 12,925 | 15,757 | 1,295 | 1,253 | 7,276 | 8,521 |
| **Total**                 | **3,852**  | **3,858** | **4,006**  | **24,255** | **29,737** | **39,137** | **2,000** | **1,947** | **18,013** | **20,885** |

| Cancer Treatments         | **Chemo** | 554 | 493 | 471 | 138  | 99  | 109  | 220 | 195 | 43  | 27  |
|                           | **Radiation therapy** | 15  | 18  | 14  | 622  | 1,352 | 1,040 | 5   | 4   | 553 | 457 |
| **Total**                 | **569**    | **511** | **485**  | **760** | **1,451** | **1,149** | **225** | **199** | **596** | **484** |

* Outpatient cases consist of same-day surgeries and treatments.
** Outpatient cases consist of same-day surgeries and treatments, infusion and radiation therapy, lab, radiology, and other ancillary services.
*** Cancer cases are categorized by diagnosis code range and may be included in the data presented under the other Strategic Clinical Services.
Source: Stanford Hospital and Clinics Records.
Management’s Discussion of Utilization

2001

In 2001, admissions decreased by approximately 1.1% at the same time as patient days increased by approximately 7.5%, resulting in an increase of average length of stay to 5.3. Inpatient and outpatient surgeries declined by approximately 20%. Offsetting the decline in admissions was an approximately 6.6% increase in short-stay outpatient procedures and an increase of approximately 3.4% in emergency room visits.

2002

In 2002, admissions decreased by approximately 1.6%, at the same time patient days increased by approximately 3.2%, further increasing average length of stay to 5.6 days. However, short-stay outpatient procedures increased by approximately 7.6% and inpatient and outpatient surgeries increased by approximately 2.4%. Neuroscience inpatient discharges increased by approximately 8.8%. In addition, solid organ transplantations increased by approximately 43% in 2002.

At February 28, 2003-Six Months

During the first six months of fiscal year 2003 (September 1, 2002 through February 28, 2003), inpatient volume has declined approximately 7.8% compared to the same period in the prior fiscal year. The Local Market (San Mateo and Santa Clara counties) accounted for 82% of this decline, with the Central Coast area of the Regional Markets accounting for approximately 8% of this decline. The largest declines in inpatient volume occurred in cardiac and non-transplant surgery. Management believes these declines, which were expected as result of strategic decisions made by management, are due, primarily, to discontinuation of capitation contracts, the continued shift of services from an inpatient to an outpatient setting, increasing enrollment in certain third party payment plans, including Kaiser, and lack of support by community physicians.

In anticipation of an expected shift of less complex outpatient services to settings less intensive than those of Stanford Hospital and Clinics, the Corporation invested in Waverley. See “Corporate Organization and Affiliates’ above. Through its investment in Waverley, the Corporation attempted to capture the income from the outpatient procedures that it would otherwise have lost. Management of the Corporation believes this strategy has been largely successful. In addition, as discussed above, the Corporation is currently constructing a new outpatient facility (See “Services, Facilities and Operations - Principal Patient Services - Cancer Treatment” above) and intends to pursue a strategy of locating selected outpatient subspecialty services in local communities (See “Services, Facilities and Operations - Market Strategy” above).

With respect to declines due to discontinuation of capitation contracts and enrollment in certain third party payment plans, as discussed above, management is pursuing a strategy of focusing on providing the four Strategic Clinical Services and other higher complexity tertiary and quaternary services (See “Services, Facilities and Operations - Market Strategy” above). Management intends, by its planning, development and marketing, to have the Hospital and Clinics be recognized as a leading center in the provision of such services. Management expects that such recognition will increase the number of third party payers contracting with the Corporation for such services and the revenues received for such services.

In an effort to increase support among community physicians, management intends to continue to work with School of Medicine faculty to increase involvement in continuing medical education programs
and to implement a formal grand rounds program. In addition, management intends to review and revise, as necessary, administrative and other procedures in order to provide additional support to community physicians.

SUMMARY OF FINANCIAL INFORMATION

The following consolidated statement of operations and changes in net assets for the fiscal year ended August 31, 2002 has been derived from the consolidated financial statements of Stanford Hospital and Clinics and Subsidiaries. Consolidated financial statements of Stanford Hospital and Clinics and Subsidiaries, which are included as Appendix B-1, have been audited by PricewaterhouseCoopers LLP, independent accountants, whose report thereon appears in Appendix B-1 hereto. The comparative consolidated statements of operations and changes in net assets for the six months ended February 28, 2002 and 2003 have been prepared by management. Such financial information is unaudited but in the opinion of management of the Corporation fairly presents the results of operations and changes in net assets for the six month periods ended February 28, 2003 and 2002 and is presented on a basis consistent with the audited financial statements of the Corporation contained in Appendix B-1. This summary should be read in conjunction with the audited financial statements and related notes thereto of Stanford Hospital and Clinics and Subsidiaries in Appendix B-1 and the unaudited supplementary consolidating statement of operations and changes in net assets and balance sheet of Stanford Hospital and Clinics and subsidiaries contained in Appendix B-2.

As noted above, historical audited financial statements of the Corporation are presented in Appendix B-1 only for the fiscal year ended August 31, 2002. The operations of the Corporation were components of UCSF Stanford Health Care through March 31, 2000. During the period April 1, 2000 through August 31, 2001, the Corporation was the sole member of LPCH. As required under generally accepted accounting principles, financial statements for the Corporation for the period April 1, 2000 through August 31, 2000 and for the fiscal year ended August 31, 2001 included the results of operations, cash flows and balance sheets of the Corporation consolidated with LPCH. Therefore, financial statements comparable to the audited financial statements for the fiscal year ended August 31, 2002 are not available. Effective September 1, 2001, the University replaced the Corporation as sole member of LPCH. This change in the corporate relationship between LPCH and the Corporation and restatement of the Corporation’s net assets as of the end of the fiscal year August 31, 2001 also affects comparability of financial information. The change in corporate relationship and the restatement are described below and in Footnote 1 and Footnote 3 to the financial statements of the Corporation contained in Appendix B-1.

The results of MHA and SHC/LPCH Insurance Company are consolidated with those of the Corporation for all periods. The financial results of Waverley and PET-CT are reported using the equity method. Appendix B-2 includes the unaudited supplementary consolidating statement of operations and changes in net assets and balance sheet of the Corporation, MHA and SHC/LPCH Insurance Company. 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.
# TABLE 9

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

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended August 31, 2002</th>
<th>For the Six Months Ended February 28 (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>$859,919</td>
<td>$380,419</td>
</tr>
<tr>
<td>Premium revenue</td>
<td>39,543</td>
<td>21,974</td>
</tr>
<tr>
<td>Other revenue</td>
<td>14,295</td>
<td>6,506</td>
</tr>
<tr>
<td>Investment income</td>
<td>4,290</td>
<td>2,943</td>
</tr>
<tr>
<td>Net assets released from restrictions used for operations</td>
<td>3,673</td>
<td>814</td>
</tr>
<tr>
<td><strong>Total Revenues, Gains, and Other Support</strong></td>
<td>921,720</td>
<td>412,656</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits <em>(1)</em></td>
<td>389,329</td>
<td>183,224</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>37,282</td>
<td>17,870</td>
</tr>
<tr>
<td>Interest</td>
<td>9,858</td>
<td>5,307</td>
</tr>
<tr>
<td>Other Operating Expenses <em>(2)</em></td>
<td>472,761</td>
<td>213,239</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>909,230</td>
<td>419,640</td>
</tr>
<tr>
<td><strong>Excess (Deficit) of Revenues, Gains, and Other Support Over Expenses</strong></td>
<td>12,490</td>
<td>(6,984)</td>
</tr>
<tr>
<td>Changes in net unrealized gains and losses on investments</td>
<td>337</td>
<td>(1,702)</td>
</tr>
<tr>
<td>Net assets released from restrictions used for purchase of property and equipment</td>
<td>296</td>
<td>87</td>
</tr>
<tr>
<td>Other</td>
<td>68</td>
<td>0</td>
</tr>
<tr>
<td><strong>Increase (Decrease) in Unrestricted Net Assets</strong></td>
<td>13,191</td>
<td>(8,599)</td>
</tr>
<tr>
<td><strong>Changes in temporarily restricted net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>4,066</td>
<td>3,503</td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>3,926</td>
<td>(938)</td>
</tr>
<tr>
<td>Net assets released from restrictions for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>(3,673)</td>
<td>(814)</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(296)</td>
<td>(87)</td>
</tr>
<tr>
<td><strong>Increase (Decrease) in Temporarily Restricted Net Assets</strong></td>
<td>4,023</td>
<td>1,644</td>
</tr>
<tr>
<td><strong>Changes in permanently restricted net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment loss</td>
<td>(525)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Decrease in Permanently Restricted Net Assets</strong></td>
<td>(525)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Increase (Decrease) in Net Assets</strong></td>
<td>16,689</td>
<td>(6,935)</td>
</tr>
<tr>
<td>Net Assets, beginning of year, as restated</td>
<td>162,229</td>
<td>162,229</td>
</tr>
<tr>
<td><strong>Net Assets, end of year</strong></td>
<td>$178,918</td>
<td>$155,294</td>
</tr>
</tbody>
</table>

*(1)* Amount includes the salary and benefit costs shared by the Corporation and LPCH.  
*(2)* This amount is net of payments by related parties (LPCH and Stanford University).

### Management’s Discussion and Analysis

**Effect of Change of Membership of LPCH on Net Assets of the Corporation.** Stanford University replaced the Corporation as sole member of LPCH effective September 1, 2001. As the result of this change, net assets of the Corporation were reduced by approximately $221 million as of September 1, 2001. See Footnote 1 of the audited financial statements of the Corporation contained in Appendix B.
for more information regarding the effect of the change of membership on the financial statements of the Corporation.

Restatement of Net Assets as of August 31, 2001. As discussed in Footnote 3 of the audited financial statements of the Corporation included in Appendix B, the net assets of the Corporation as of August 31, 2001 have been restated. The restatement resulted in an increase of total net assets as of August 31, 2001 by $2.36 million to $383.24 million. Prior to the transfer of net assets to LPCH (see above) the restatement of net assets included (i) recorded additional income from pledges, (ii) reducing contractual allowances, (iii) recording other assets related to deposits and the pension plans, (iv) reclassifying net assets based upon donor restrictions and (v) reducing depreciable fixed assets by $24.85 million. The net assets of LPCH, prior to transfer, were restated for items (i) through (iv), and the net assets of the Corporation were restated for item (v) above. The impact of the restatement on the Corporation (i.e. a reduction of depreciable fixed assets) on interim financial performance is described below.

Financial Performance in Fiscal Year 2002. Management commenced activities in fiscal year 2001 to improve revenues and reduce operating expenses that contributed significantly to an increase in the Excess of Revenues, Gains and Other Support Over Expenses to $12.49 million in fiscal year 2002 compared to a Deficit of Revenues, Gains, and Other Support Over Expenses of approximately $15 million in fiscal year 2001. (For the reasons discussed above, such figures for 2001 are not directly comparable but, in management’s opinion, are nonetheless indicative of substantial improvement in operating results.) Among the significant initiatives that contributed to this improvement were the following:

- During 2001, substantially all non-Medicare contracts with payors were re-negotiated, capitation risk was eliminated from all contractual relationships and replaced with either per diem payments, discounted fee for service payments, or case rate payments. Most of these contractual changes were effective January 1, 2002.

- The price structure at the Corporation was increased such that the institution moved from the 25th quartile to within the 50th to the 75th quartile for academic medical centers, based on information from HCFA Data.com.

- Because the strategic focus of the Corporation’s services shifted commencing in the latter half of 2001 toward procedures having a higher acuity, revenue per procedure increased. The trend in acuity is evidenced by the fact that the Corporation’s Case Mix Index was essentially unchanged for 2000 and 2001 (1.8021 and 1.8022, respectively) but increased to 1.87 for 2002.

- The expense initiatives described below under “Expenses” became effective in 2002.

Management of the Corporation estimates that the cumulative effect of these factors resulted in approximately $27.5 million of incremental net income during 2002.

Expenses. With regard to expenses, focused initiatives in reducing patient care hours per patient day and on supply costs were commenced in 2001; however, these changes did not affect the financial results until 2002. With regard to wages and salaries, this item of expense, when evaluated on the basis of hours per patient day, was reduced from the 95th percentile to within the 50th percentile for academic medical centers based on data provided through the University Hospital Consortium. This resulted in cost savings of approximately $10.5 million during 2002. With regard to supplies, the Corporation instituted a policy in collaboration with each of the Clinical Chairs of the School of Medicine and the medical staff
generally of purchasing supplies from a limited pool of vendors. This effort was implemented in 2002, during such year, supplies as a percentage of Net Patient Service Revenue was approximately 15%, a ratio appropriate for an academic medical center.

**Interim Financial Statements.** The following comments are made with regard to the six-month periods ended February 28, 2002 and 2003.

-- Net Patient Service Revenue increased by approximately 20%, or $75 million. A significant portion of this increase is attributable to substitution of per diem, discounted fee for service and case rate payments for capitation arrangements, which changes took effect September 1, 2002, and to continuation of the Strategic Clinical Services strategy. The price increase referred to above also took effect in 2003.

-- Premium revenue decreased by approximately 52%, also the result of the elimination of such capitation arrangements.

-- Salaries and benefits as a percent of Net Patient Service Revenue at February 28, 2003 are consistent with those for fiscal year 2002 at approximately 45%. Thus, it is believed the improvements in staffing ratios inaugurated in 2001 are being sustained.

**Investment Income.** Returns on investment of unrestricted liquid assets is categorized as a revenue item; returns on investment of restricted liquid assets is categorized as a change in temporarily Restricted Net Assets. Both categories of asset are invested in short duration high quality fixed income securities. This investment approach was undertaken pursuant to a change in policy during August 2001; as a result, unrealized gains and losses are less volatile.

**Pension Funding Requirements.** The Corporation provides retirement benefits to eligible employees under a noncontributory defined benefit plan, the Staff Pension Plan (the “SPP”). The financial performance of pension fund investments 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.

The Corporation’s contributions to the SPP are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. As of August 31, 2002, the SPP was under-funded by approximately $21.6 million, determined in accordance with generally accepted accounting principles by comparing the actuarial value of projected benefit obligations to the fair value of plan assets as of that date. In management’s view, the under-funded status of the SPP as of August 31, 2002 was due primarily to reduced investment returns during 2002 and a reduction in the discount rate that is used to estimate benefit obligations from the rates applicable in prior years. Management anticipates that these factors will also have a negative impact on the funded status of the SPP as of the end of the current fiscal year and, consequently, it is likely that the Corporation will be required to contribute cash to the SPP in excess of the amount required on an annual basis to meet normal pension obligations. The amount of additional cash contribution has not yet been determined, but will be determined by actuarial calculations made after the close of the current fiscal year. Contributions to address under-funding, if required, would likely be made by the Corporation over the several fiscal years commencing with 2004.

**Additional Financing Requirements.** As described above under the caption “Services, Facilities and Operations - Additional Facilities Needs,” management anticipates that it will be necessary to provide
financing for the acquisition and renovation of the property described in such section in the approximate amount of $120 million.

**Historical and Pro-Forma Capitalization**

The table below, prepared by management of the Corporation, represents the consolidated capitalization of the Corporation and subsidiaries as of August 31, 2002 and historical pro forma capitalization as of August 31, 2002, assuming the issuance of $250 million in principal amount of 2003 Bonds. The information included in the table below for Actual 2002, was derived from information that is included in the audited consolidated financial statements in Appendix B.

**LPCH Obligations.** Table 10 includes information concerning three Obligations (the “LPCH Obligations”) issued under the Master Indenture for the benefit of LPCH after LPCH joined the Obligated Group in 1998. The LPCH Obligations were issued in order to secure certain obligations of LPCH in connection with certain tax-exempt debt issued for the benefit of LPCH in 1993. In 2003, the Corporation and LPCH agreed that LPCH would withdraw from the Obligated Group to enable the Corporation and LPCH to undertake future financings as separate and distinct credits. Pursuant to the provisions of the Master Indenture, LPCH withdrew from the Obligated Group effective March 11, 2003, leaving the Corporation as the sole member of the Obligated Group. However, the Corporation remains liable on the LPCH Obligations. Pursuant to an agreement between the Corporation and LPCH, LPCH has agreed to reimburse the Corporation in the event that the Corporation is required to make payments with respect to any of the LPCH Obligations.

**TABLE 10**

<table>
<thead>
<tr>
<th>Historical and Pro Forma Consolidated Capitalization</th>
<th>For the Year Ended August 31, 2002 (In Thousands)</th>
<th>Historical Pro Forma 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing Net Long-Term Debt*</td>
<td>$183,465</td>
<td>$183,465</td>
</tr>
<tr>
<td>LPCH Obligations**</td>
<td>38,000</td>
<td>38,000</td>
</tr>
<tr>
<td>2003 Bonds</td>
<td>NA</td>
<td>250,000</td>
</tr>
<tr>
<td>Total Long-Term Debt</td>
<td>221,465</td>
<td>471,465</td>
</tr>
<tr>
<td>Consolidated Net Assets</td>
<td>178,918</td>
<td>178,918</td>
</tr>
<tr>
<td>Total Consolidated Capitalization</td>
<td>$400,383</td>
<td>$650,383</td>
</tr>
<tr>
<td>Net Long-Term Debt as a percentage of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Consolidated Capitalization</td>
<td>55.3%</td>
<td>72.5%</td>
</tr>
</tbody>
</table>

* Less current portion of long term debt.

** In management’s view, the net asset position of the Corporation and subsidiaries at August 31, 2002 is the result of several factors specific to the Corporation in addition to conditions affecting the health care industry generally in the San Francisco Bay Area and nationally. Substantial losses were incurred during the operation of UCSF Stanford Health Care that reduced the net assets returned to the Corporation upon termination of UCSF Stanford Health Care’s operations in April 2000. Losses in the remaining five months of fiscal year 2000 and in 2001 further eroded net assets. Those losses resulted from unfavorable service mix, inadequate reimbursement rates, high labor and professional service costs, reduced non-operating revenue from investments and other sources, expenses incurred to restore
infrastructure and staff after the termination of operations by UCSF Stanford Health Care and, in the case of the loss incurred in the five months ended August 31, 2000, the impact of a 53-day nursing strike in June and July 2000 on costs and volume.

**Liquidity**

The following table, prepared by management of the Corporation, sets forth the cash position and liquidity of the Corporation and its subsidiaries for the fiscal year ended August 31, 2002.

**TABLE 11**

<table>
<thead>
<tr>
<th>Consolidated Liquidity</th>
<th>For the Year Ended August 31, 2002*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In Thousands</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$71,800</td>
</tr>
<tr>
<td>Long Term Investments</td>
<td>179,526</td>
</tr>
<tr>
<td>Less temporarily and permanently restricted assets</td>
<td>(19,915)</td>
</tr>
<tr>
<td>Total Liquid Assets</td>
<td>$231,411</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>96.9</td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics Records.

* Does not include amount to be reimbursed to the Corporation from the proceeds of the 2003 Bonds.

**Pro Forma Debt Service Coverage**

The following table was prepared by management and sets forth the pro-forma debt service coverage for Stanford Hospital and Clinics for the year ended August 31, 2002.

**TABLE 12**

<table>
<thead>
<tr>
<th>Consolidated Pro Forma Debt Service Coverage</th>
<th>For the Year Ended August 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In Thousands)</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$12,490</td>
</tr>
<tr>
<td>Depreciation, Amortization and Interest Expense</td>
<td>47,140</td>
</tr>
<tr>
<td>Funds Available for Debt Service</td>
<td>$59,630</td>
</tr>
<tr>
<td>Pro Forma Maximum Annual Debt Service*</td>
<td>$26,120</td>
</tr>
<tr>
<td>Coverage of Pro Forma Maximum Annual Debt Service</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics and Subsidiaries Records.

* Includes the 1998 B Bonds and 2003 Bonds. Does not include the LPCH Obligations.
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 Department of Health and Human Services, the State of California under the Medi-Cal program, and certain commercial insurance, managed care programs, and by patients on their own behalf.

The following table summarizes the percentage of the Corporation’s gross patient revenues by source of payment for the year ended August 31, 2002.

<table>
<thead>
<tr>
<th>TABLE 13</th>
<th>Gross Patient Service Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>26%</td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>8</td>
</tr>
<tr>
<td>Managed Care</td>
<td>52</td>
</tr>
<tr>
<td>Subtotal</td>
<td>86</td>
</tr>
<tr>
<td>Commercial and Other</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Stanford Hospital and Clinics 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.

The Corporation is currently certified as a provider of care for beneficiaries of the Medicare and Medi-Cal programs. However, on April 29, 2003, the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (“CMS”) and the California Department of Health Services notified the Corporation of two violations of the Emergency Medical Treatment and Active Labor Act (“EMTALA”) and informed the Corporation that its provider agreements for participation in the Medicare and Medi-Cal programs, respectively, would be terminated on July 27, 2003 (a “Termination”). These notices resulted from a survey of the Hospital and Clinics on March 12, 2003. The Corporation may avoid the Termination by either providing (i) a credible allegation or credible evidence that the violations have been corrected; or (ii) proof that the violation has been corrected; or (iii) successfully proves to CMS that the deficiencies ceased to exist not later than May 13, 2003. A resurvey was conducted on June 18, 2003. After resurveying the Hospital, inspectors for the Centers for Medicare and Medicaid Services have informed the Corporation that it passed the resurvey. Formal documentation is expected shortly.

See “BONDHOLDERS’ RISKS” in the front part of this Official Statement for a more detailed discussion on the sources of revenue for the Corporation and certain other risks associated with certain sources of revenue.
Managed Care Initiatives

The Corporation has developed and maintains contracts with many leading managed care plans. 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 Corporation contracts with all major health plans organized and operating in its service area. The largest volume payers for the Corporation in fiscal year 2002 were: Aetna, Blue Cross of California, Blue Shield of California, Cigna, HealthNet, Kaiser and PacifiCare. Management has cancelled all fixed fee or capitation agreements except for HealthNet Seniority Plus, a Medicare HMO, for members of the Palo Alto Medical Foundation. Enrollment in this product has been on the decline over the past 18 months and now serves approximately 5,200 members. Fee-for-service reimbursement employs the traditional methodologies including percent of charges, per diems, case rates, surgical schedules and stop-loss.

Investments

As of August 31, 2002, the Corporation’s funds were invested in a portfolio which included approximately 69% cash and cash equivalents, approximately 14% in fixed income investments, approximately 6% in equity investments and approximately 11% in pooled funds managed by Stanford University. These pooled funds are currently invested in cash and cash equivalents, government and corporate debt securities, equity securities, mutual funds, real estate, investments in partnerships, and other investments. For additional information regarding the composition of the Corporation’s investments at August 31, 2002, accounting for the Corporation’s interest in pooled funds managed by the University and earnings therefrom, see Footnote 7 in Appendix B.

ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL CERTIFICATION

The California Department of Health Services licenses the Hospital as a general acute care facility. Stanford Hospital and Clinics received its most recent full three-year accreditation from the Joint Commission on Accreditation of Health Care Organizations in March 2001 and is due for a routine triennial accreditation visit in Spring of 2004.

The Corporation is currently certified as a provider of care for beneficiaries of the Medicare and Medi-Cal programs. However, as indicated above under the caption “Sources of Revenue,” on April 29, 2003, CMS and the California Department of Health Services notified the Corporation of two violations of EMTALA and informed the Corporation that its provider agreements for participation in the Medicare and Medi-Cal programs, respectively, would be terminated on July 27, 2003. These notices resulted from a survey of the Hospital and Clinics on March 12, 2003. The Corporation may avoid the Termination by either providing (i) a credible allegation or credible evidence that the violations have been corrected; or (ii) proof that the violation has been corrected or (iii) successfully proves to CMS that the deficiencies ceased to exist not later than May 13, 2003. A resurvey was conducted on June 18, 2003. After resurveying the Hospital, inspectors for the Centers for Medicare and Medicaid Services have informed the Corporation that it passed the resurvey. Formal documentation is expected shortly.

PROFESSIONAL LIABILITY AND OTHER INSURANCE

The Corporation maintains coverage of professional and comprehensive general liability through programs of self-insurance, reinsurance and third-party insurance. Primary and excess layers of such liability are insured through SHC/LPCH Insurance Company, Inc. (the “Affiliated Insurer”), an affiliated
insurer that is jointly controlled by LPCH and the Corporation, under policies written on an occurrence basis. The Affiliated Insurer provides hospital professional liability insurance covering general liability, health care professional liability and errors and omissions to the Corporation, LPCH and the Stanford School of Medicine (including the clinical activities of its faculty and residents) on a combined basis.

For the policy year September 1, 2002 to September 1, 2003, the Affiliated Insurer retains 100% of the risk related to the first $7 million of losses by the Corporation, LPCH and the Stanford School of Medicine. The Affiliated Insurer has an annual aggregate retention of $32 million covering jointly the Corporation, LPCH and the Stanford School of Medicine. It has obtained $75 million of excess reinsurance jointly covering the Corporation, LPCH and the Stanford School of Medicine. The remaining risk up to the $182 million level is covered under policies covering Stanford University in general, as well as the Corporation and LPCH. For policy years before September 1, 2002, the Affiliated Insurer provides occurrence-based coverage of the risk related to the primary loss layer in varying amounts year-to-year from its inception on April 1, 2000.

In addition to coverage provided by the Affiliated Insurer, the Corporation obtains coverage of various risks under policies issued by commercial insurers. These policies typically name LPCH and, in some cases, the University as insured as well; as a result, claims brought by one named insured reduce coverage available to the others. The Corporation secures workers compensation coverage jointly with LPCH under commercial policies for amounts in excess of a deductible per claim, which is $350,000 per claim for the current fiscal year. It obtains property damage insurance under commercial policies with limits shared with the University and LPCH in an aggregate amount of $500 million of coverage, subject to various exclusions for property loss caused by risks such as earthquake, flood, business interruption and certain acts of terrorism, among others. It obtains directors and officers liability coverage under commercial policies with limits shared with LPCH subject to a deductible, which is $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 2003 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.

There is not now pending or threatened any litigation restraining or enjoining the issuance or delivery of the 2003 Bonds or questioning or affecting the validity of the 2003 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 2003 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, 2002, Stanford Hospital and Clinics employed 4,015 full-time, and 2,530 regular part time and 751 per diem/PRN staff, equivalent to 5,982 full-time equivalent (“FTE”)
employees. As of August 31, 2002, the Corporation’s nursing departments employed 2,595 full and part
time personnel, or 1,890 FTE employees, consisting of 1,358 FTE registered nurses (“RNs”), 49 FTE
licensed practical nurses (“LPNs”), and 483 FTE supervisory, clerical and other support staff. Turnover
rate for the nursing staff for the past twelve months was 6.93% for RNs and 22% for LPNs. Of its current
staff, the Corporation leases 1,745 employees (1,304 FTE) to LPCH and 1,695 (1568 FTE) work in
Shared Services. For additional information concerning Shared Services, see “Facilities, Operations and
Services - Operational Relationships Among the Corporation, the University and LPCH.”

On December 19, 2002, Stanford Hospital and Clinics and the Service Employees International
Union (“SEIU”) which represents 1,409 Stanford Hospital and Clinics employees, agreed to a three-year
contract which covers nursing assistants, lab technicians, housekeeping assistants and various other
support service positions. 1,875 Stanford Hospital and Clinic RNs are also covered by the Committee for
Recognition of Nursing Achievement (“CRONA”) Bargaining Agreement. The agreement with CRONA
is scheduled to expire on March 31, 2004. A 53-day strike in the summer of 2000 preceded agreement on
the current contract. The SEIU staged a one-day strike in November of 2002.

Management of the Corporation is of the opinion that its relationship with its employees and the
unions representing them is satisfactory.
Stanford Hospital and Clinics
Report on Audited Consolidated Financial Statements
For the Year Ended August 31, 2002
Stanford Hospital and Clinics
Index to Report and Consolidated Financial Statements
August 31, 2002

Report of Independent Accountants .................................................. 1
Consolidated Financial Statements:
  Consolidated Balance Sheet at August 31, 2002 ................. 2
  Consolidated Statement of Operations and Changes in Net Assets
    For the Year Ended August 31, 2002 .................. 3
  Consolidated Statement of Cash Flows
    For the Year Ended August 31, 2002 .............. 4
  Notes to Consolidated Financial Statements ............ 5
Report of Independent Accountants

To the Board of Directors
Stanford Hospital and Clinics

In our opinion, the accompanying consolidated balance sheet 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, 2002 and the results of their operations and their cash flows for the year 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 audit provides a reasonable basis for our opinion.

As discussed in Note 3, SHC has restated its net assets as of August 31, 2001, previously audited by other independent accountants who have ceased operations.

PricewaterhouseCoopers LLP
December 13, 2002
# Stanford Hospital and Clinics
## Consolidated Balance Sheet
### August 31, 2002
#### (In Thousands)

### Assets

<table>
<thead>
<tr>
<th>Current assets:</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>71,800</td>
</tr>
<tr>
<td>Assets limited as to use, held by trustee</td>
<td>10,620</td>
</tr>
<tr>
<td>Patient accounts receivable, net of allowance for doubtful accounts of $57,159</td>
<td>126,694</td>
</tr>
<tr>
<td>Other receivables</td>
<td>7,744</td>
</tr>
<tr>
<td>Inventories</td>
<td>8,950</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>1,624</td>
</tr>
<tr>
<td>Due from related parties</td>
<td>5,915</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>233,347</strong></td>
</tr>
<tr>
<td>Investments</td>
<td>179,526</td>
</tr>
<tr>
<td>Assets limited as to use, held by trustee, net of current portion</td>
<td>14,660</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>183,744</td>
</tr>
<tr>
<td>Other assets</td>
<td>16,964</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>628,241</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Current liabilities:</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>61,866</td>
</tr>
<tr>
<td>Accrued salaries and related benefits</td>
<td>49,323</td>
</tr>
<tr>
<td>Due to related parties</td>
<td>7,330</td>
</tr>
<tr>
<td>Third-party payor settlements</td>
<td>42,465</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>2,800</td>
</tr>
<tr>
<td>Self-insurance reserves, current</td>
<td>15,918</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>179,702</strong></td>
</tr>
<tr>
<td>Self-insurance reserves, net of current portion</td>
<td>86,156</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>183,465</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>449,323</strong></td>
</tr>
</tbody>
</table>

### Commitments and contingencies (Notes 13 and 14)

<table>
<thead>
<tr>
<th>Net assets:</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>159,003</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>18,349</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>1,566</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>178,918</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>628,241</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
### Stanford Hospital and Clinics
#### Consolidated Statement of Operations and Changes in Net Assets
#### For the Year Ended August 31, 2002
#### (In Thousands)

**Revenues:**
- Net patient service revenue: $859,919
- Premium revenue: $39,543
- Investment income: $4,290
- Other revenue: $14,295
- Net assets released from restrictions used for operations: $3,673

<table>
<thead>
<tr>
<th>Total revenues, gains, and other support</th>
<th>$921,720</th>
</tr>
</thead>
</table>

**Expenses:**
- Salaries and benefits: $389,329
- Professional services: $23,503
- Supplies: $127,213
- Purchased services: $214,004
- Provision for doubtful accounts: $80,742
- Depreciation and amortization: $37,282
- Interest: $9,858
- Other: $78,672
- Expense recoveries from related parties: $(51,373)

<table>
<thead>
<tr>
<th>Total expenses</th>
<th>$(51,373)</th>
</tr>
</thead>
</table>

**Excess of revenues, gains, and other support over expenses:** $12,490

**Change in net unrealized gains and losses on investments:** $337

**Net assets released from restrictions used for purchase of property and equipment:** $296

**Other:** $68

<table>
<thead>
<tr>
<th>Increase in unrestricted net assets</th>
<th>$13,191</th>
</tr>
</thead>
</table>

**Changes in temporarily restricted net assets:**
- Contributions: $4,066
- Investment income: $3,926

**Net assets released from restrictions for:**
- Operations: $(3,673)
- Purchase of property and equipment: $(296)

<table>
<thead>
<tr>
<th>Increase in temporarily restricted net assets</th>
<th>$4,023</th>
</tr>
</thead>
</table>

**Changes in permanently restricted net assets:**
- Investment income: $(525)

<table>
<thead>
<tr>
<th>Decrease in permanently restricted net assets</th>
<th>$(525)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Increase in net assets</th>
<th>$16,689</th>
</tr>
</thead>
</table>

**Net assets, beginning of year, as restated (Note 3):** $383,235

**Transfer of LPCH to Stanford University (Note 1):** $(221,006)

<table>
<thead>
<tr>
<th>Net assets, end of year</th>
<th>$178,918</th>
</tr>
</thead>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## Stanford Hospital and Clinics
### Consolidated Statement of Cash Flows
#### For the Year Ended August 31, 2002
#### (In Thousands)

### Cash flows from operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in net assets</td>
<td>$16,689</td>
</tr>
<tr>
<td>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$37,282</td>
</tr>
<tr>
<td>Provision for doubtful accounts</td>
<td>$80,742</td>
</tr>
<tr>
<td>Unrealized gain on investments</td>
<td>($337)</td>
</tr>
<tr>
<td>Contributions received for long-term purposes</td>
<td>($3,498)</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>Patient accounts receivable, net</td>
<td>($82,659)</td>
</tr>
<tr>
<td>Due to/from related parties</td>
<td>($12,206)</td>
</tr>
<tr>
<td>Other receivables, inventory, other assets, prepaid expenses and other</td>
<td>($4,247)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$15,709</td>
</tr>
<tr>
<td>Accrued salaries and related benefits</td>
<td>$10,759</td>
</tr>
<tr>
<td>Third-party payor settlements</td>
<td>$5,962</td>
</tr>
<tr>
<td>Self-insurance reserves</td>
<td>$1,471</td>
</tr>
<tr>
<td>Cash provided by operating activities</td>
<td>$65,667</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of investments</td>
<td>($44,660)</td>
</tr>
<tr>
<td>Sale of investments</td>
<td>$22,763</td>
</tr>
<tr>
<td>Increase in assets limited as to use</td>
<td>$16,503</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>($51,806)</td>
</tr>
<tr>
<td>Cash used in investing activities</td>
<td>($57,200)</td>
</tr>
</tbody>
</table>

### Cash flows from financing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of long-term debt</td>
<td>($2,670)</td>
</tr>
<tr>
<td>Contributions received for long-term purposes</td>
<td>$3,498</td>
</tr>
<tr>
<td>Transfer of cash to Stanford University (Note 1)</td>
<td>($53,385)</td>
</tr>
<tr>
<td>Cash used in financing activities</td>
<td>($52,557)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>($44,090)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>$115,890</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$71,800</td>
</tr>
</tbody>
</table>

### Supplemental disclosures of cash flow information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid, net of capitalized interest</td>
<td>$9,819</td>
</tr>
<tr>
<td>Capitalized interest</td>
<td>$486</td>
</tr>
<tr>
<td>Contribution of fixed assets for partnership interest</td>
<td>$707</td>
</tr>
<tr>
<td>Transfer of LPCH to Stanford University (Note 1)</td>
<td>$167,621</td>
</tr>
</tbody>
</table>

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

Stanford Hospital and Clinics operates a licensed acute care and specialty hospital in Palo Alto and numerous outpatient physician clinics in the San Francisco Bay Area on various campuses, in community settings, and in association with regional hospitals.

The consolidated financial statements include Stanford Hospital and Clinics' 100% interest in the Stanford Hospital and Clinics Professional Insurance Company, Inc. ("SHCPIC"), a wholly owned captive insurance carrier, and the 100% interest in Menlo Health Alliance ("MHA"), a wholly owned California taxable corporation that operates an outpatient clinic (collectively "SHC").

The Board of Trustees of Leland Stanford Junior University (the "University") is the sole corporate member of SHC. Effective September 1, 2001, SHC transferred its interest as sole corporate member of the Lucile Packard Children's Hospital ("LPCH") to the University. As part of their ongoing operations, SHC and LPCH engage in certain related party transactions as described further in the following notes.

The net assets of LPCH transferred to the University were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$53,385</td>
</tr>
<tr>
<td>Other assets</td>
<td>261,155</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(93,534)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>$221,006</strong></td>
</tr>
</tbody>
</table>

2. **Summary of Significant Accounting Policies**

**Consolidation**

The consolidated financial statements include the accounts of Stanford Hospital and Clinics and its subsidiaries, which are controlled and owned more than 50% by Stanford Hospital and Clinics. All significant inter-company accounts and transactions are eliminated in the consolidation. Investments for which SHC has 50% or less ownership and does not have control are recorded using the equity method.

**Basis of Presentation**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with the Audit and Accounting Guide, "Health Care Organizations," issued by the American Institute of Certified Public Accountants. 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. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of 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 statement of operations and changes in net assets. Investment income on temporarily or permanently restricted assets 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**

Indenture requirements of bond financing provide for the establishment and maintenance of various accounts with a trustee. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of short-term investments, recorded at cost, which approximates fair value.
2. **Summary of Significant Accounting Policies (Continued)**

**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 consist of cash and cash equivalents, common stocks, and fixed-income securities (government and corporate bonds), and are stated at fair value. Investment earnings (including realized gains and losses on investments, interest, dividends and other than temporary impairments) are included in operating revenue unless the income or loss is restricted by donor or law. Unrestricted unrealized gains and losses on other than trading securities are separately reported below the excess of revenues, gains, and other support over expenses. Investment income, realized and unrealized gains and losses on investments of donor restricted funds 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 of property and equipment is provided using the straight-line method over the asset’s estimated useful lives, 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 statement of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**Other Assets**

Other assets include long-term assets such as deferred financing costs and prepaid pension costs. Deferred financing costs represent costs incurred in conjunction with the issuance of SHC’s Fixed Rate Revenue Bonds 1998 Series B. These costs are amortized on a straight-line basis, which approximates the effective interest method, over the life of the revenue bonds.
2. Summary of Significant Accounting Policies (Continued)

Excess of revenues over expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and 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).

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. Laws and regulations governing the Medicare and Medi-Cal programs are extremely 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.

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 statement 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 self-insurance reserves and other in the consolidated balance sheet) includes an estimate of the costs of services for which SHC is responsible, including referrals to outside healthcare providers. Many of these contracts were cancelled during the year ended August 31, 2002.
2. Summary of Significant Accounting Policies (Continued)

Charity Care

SHC provides 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 SHCPIC are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. MHA is a C corporation and is subject to federal and state income taxes. However, MHA has not generated taxable income and accordingly, no provision for income tax has been recorded.

Self-Insurance Plans

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

- **Professional Liability** — SHC is self-insured for medical malpractice losses under claims-made policies, with a per-occurrence retention of $5,000. SHC purchases additional reinsurance to cover liability exposure above the $5,000 per-claim retention. Estimated losses, including claims-made tail exposures, have been accrued under actuarially determined formulas.

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

- **Workers’ Compensation** — SHC is self-insured for workers’ compensation claims. Estimated losses have been accrued under actuarially determined formulas.

- **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. Actual results could differ from those estimates.

3. Restatement

Opening net assets (consolidated with SHC, SHCPIC, LPCH and MHA) totaled $380,875 on September 1, 2001. Prior to the transfer of LPCH to the University, SHC restated its net assets as of August 31, 2001 to reflect the effects of the following adjustments: (i) to record additional pledges receivable in accordance with SFAS No. 136 “Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others” (ii) to record a reduction in the contractual allowance related to patient accounts receivable (iii) to correctly record prepaid deposits and pension asset related to the LPCH frozen plan (iv) to reclassify net asset balances to correctly present donor stipulated restrictions in accordance with SFAS No. 117 ”Financial Statements of Not-for-Profit Organizations” and (v) to recognize impairments of certain property and equipment. The effects of the adjustments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted Net Assets</th>
<th>Temporarily Restricted Net Assets</th>
<th>Permanently Restricted Net Assets</th>
<th>Total Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning net assets, as previously reported</td>
<td>$282,793</td>
<td>$28,681</td>
<td>$69,401</td>
<td>$380,875</td>
</tr>
<tr>
<td>Fixed assets (24,850)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(24,850)</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>-</td>
<td>7,720</td>
<td>-</td>
<td>19,447</td>
</tr>
<tr>
<td>Contractual allowance</td>
<td>5,900</td>
<td>-</td>
<td>-</td>
<td>5,900</td>
</tr>
<tr>
<td>Other</td>
<td>1,863</td>
<td>-</td>
<td>-</td>
<td>1,863</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>19,725</td>
<td>1,635</td>
<td>(21,360)</td>
<td>-</td>
</tr>
<tr>
<td>Beginning net assets, as restated</td>
<td>$285,431</td>
<td>$38,036</td>
<td>$59,768</td>
<td>$383,235</td>
</tr>
</tbody>
</table>
4. Net Patient Service Revenue

SHC has agreements with third-party payors that provide for payments at amounts different from SHC’s established rates. A summary of payment arrangements with major third-party payors 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 by a peer review organization.

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 revenue in the year examination is substantially completed. SHC Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 1998.

SHC does not believe that there are significant credit risks associated with this government agency. 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. Workers’ compensation plans that pay negotiated rates are reported as contract (discounted or per diem).
  
  - Managed care contracts such as those with HMO’s and PPO’s, which reimburse SHC at contracted or per diem rates, which are usually less than full charges.
4. **Net Patient Service Revenue (Continued)**

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

Amounts due from Medicare represent 15% of net patient accounts receivable at August 31, 2002.

Net patient service revenue, including premium revenue, by major payor for the year ended August 31, 2002 is as follows:

<table>
<thead>
<tr>
<th>Payor</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>$ 175,765</td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>$ 24,922</td>
</tr>
<tr>
<td>Managed Care - Capitation</td>
<td>$ 38,251</td>
</tr>
<tr>
<td>Managed Care - Discounted Fee for Services</td>
<td>$ 454,817</td>
</tr>
<tr>
<td>Self pay and other</td>
<td>$ 204,415</td>
</tr>
<tr>
<td>Related party revenue</td>
<td>$ 1,292</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 899,462</strong></td>
</tr>
</tbody>
</table>

5. **Charity Care**

Information related to SHC’s charity care for the year ended August 31, 2002 is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charity care at established rates</td>
<td>$ 5,645</td>
</tr>
<tr>
<td>Estimated cost of charity care (unaudited)</td>
<td>$ 2,238</td>
</tr>
</tbody>
</table>

Estimated cost in excess of reimbursement for Medi-Cal and county services was $26,949 for the year ended August 31, 2002 (unaudited).
6. **Assets Limited As to Use, Held by Trustee**

The composition of assets limited as to use at August 31, 2002 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$24,409</td>
<td>$24,409</td>
</tr>
<tr>
<td>Government debt securities</td>
<td>820</td>
<td>871</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,229</strong></td>
<td><strong>25,280</strong></td>
</tr>
<tr>
<td>Less: Current portion of assets limited as to use, held by trustee</td>
<td></td>
<td>(10,620)</td>
</tr>
<tr>
<td>Assets limited as to use, held by trustee, net of current portion</td>
<td></td>
<td><strong>$14,660</strong></td>
</tr>
</tbody>
</table>

7. **Investments**

The composition of investments at August 31, 2002 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$125,444</td>
<td>$125,444</td>
</tr>
<tr>
<td>Government and corporate debt securities</td>
<td>24,949</td>
<td>25,607</td>
</tr>
<tr>
<td>Equity securities</td>
<td>10,694</td>
<td>9,307</td>
</tr>
<tr>
<td>Funds held through the University</td>
<td>19,168</td>
<td>19,168</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$180,255</strong></td>
<td><strong>$179,526</strong></td>
</tr>
</tbody>
</table>

Funds held through the University are invested in pooled funds, holding a variety of investments, which consist of cash and cash equivalents, government and corporate debt securities, equity securities and mutual funds, real estate, investment in partnerships, and other. SHC’s interest in the pooled investment funds and related investment income is accounted for on a share basis. Investment income earned from SHC’s ownership of interests in the pooled investment funds reflect its proportionate share of the interest, dividends, and realized gains of the securities held in the pool.

Investment earnings consist of the following for the year ended August 31, 2002:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income and dividends</td>
<td>$7,691</td>
</tr>
<tr>
<td>Net realized and unrealized gains</td>
<td>337</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,028</strong></td>
</tr>
</tbody>
</table>
8. **Property and Equipment**

Property and equipment consist of the following as of August 31, 2002:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>$1,509</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$325,355</td>
</tr>
<tr>
<td>Equipment</td>
<td>$248,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$575,364</td>
</tr>
</tbody>
</table>

Less: Accumulated depreciation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction-in-progress</td>
<td>$(447,304)</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td><strong>$183,744</strong></td>
</tr>
</tbody>
</table>

9. **Long-Term Debt**

SHC and LPCH are members of the Obligated Group, established effective April 1, 2000, and they (the “Hospitals”) are jointly and severally liable for the long-term debt outstanding under the Obligated Group’s Master Trust Indenture. Total debt outstanding is $224,265. The outstanding debt discussed below is part of the Obligated Group.

SHC’s outstanding debt at August 31, 2002 is summarized below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate Revenue Bonds 1998 Series B, payable in annual amounts through 2013, with an interest rate of 5% at August 31, 2002</td>
<td>$186,265</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>186,265</td>
</tr>
</tbody>
</table>

Less: Current portion of long-term debt

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term portion, net of current portion</td>
<td>$(2,800)</td>
</tr>
<tr>
<td><strong>Long-term portion, net of current portion</strong></td>
<td><strong>$183,465</strong></td>
</tr>
</tbody>
</table>

The Fixed Rate Revenue Bonds 1998 Series B (“Revenue Bonds”) are unsecured obligations of SHC. Payments of principal and interest on the 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.
9. Long-Term Debt (Continued)

Principal payments on long-term debt are summarized below:

<table>
<thead>
<tr>
<th>Year Ending August 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$2,800</td>
</tr>
<tr>
<td>2004</td>
<td>2,945</td>
</tr>
<tr>
<td>2005</td>
<td>3,090</td>
</tr>
<tr>
<td>2006</td>
<td>3,245</td>
</tr>
<tr>
<td>2007</td>
<td>3,410</td>
</tr>
<tr>
<td>Thereafter</td>
<td>170,775</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$186,265</strong></td>
</tr>
</tbody>
</table>

The estimated fair value of the Revenue Bonds as of August 31, 2002 was $188,529.


10. Retirement Plans

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

**Defined Benefit Plans**

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.

Benefits accumulated through March 31, 2000, are included in the benefit obligation currently recorded on the books of UCSF Stanford Health Care. Benefits accumulated through March 31, 2000 have been included in the benefit obligation recorded on the books of UCSF Stanford Health Care. Those obligations and related plan assets were transferred to and assumed by SHC and University of California on December 3, 2002. In anticipation of such transfer and assumption, SHC recorded the net periodic benefit gain allocated to SHC, service costs incurred since March 31, 2000, and other pension costs related to benefits accumulated since March 31, 2000. As a result, a net prepaid pension benefit of $4,540 was recorded by SHC as of August 31, 2002.
10. Retirement Plans (Continued)

Defined Contribution Plan

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan totaling $15,756 are included in salary and benefits expense in the consolidated statement of operations and changes in net assets.

Postretirement Medical Benefit Plan

SHC currently provides health insurance coverage for 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. The obligation for these benefits has been recorded in the accompanying consolidated balance sheet.

The plan assets and benefit obligation presented below include the portion of the UCSF Stanford Health Care pension plan related to the Hospitals’ employees and the Staff Pension Plan. The net periodic pension cost and post-retirement medical benefit cost include the following components, as of and for the year ended August 31, 2002:

<table>
<thead>
<tr>
<th></th>
<th>Staff Pension Plan Obligations</th>
<th>Postretirement Medical Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in plan assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$108,224</td>
<td>$ -</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(7,770)</td>
<td>-</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>567</td>
<td>3,051</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(4,499)</td>
<td>(3,051)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>$96,522</td>
<td>$-</td>
</tr>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$109,232</td>
<td>$64,839</td>
</tr>
<tr>
<td>Service Cost</td>
<td>1,893</td>
<td>1,962</td>
</tr>
<tr>
<td>Interest cost</td>
<td>7,689</td>
<td>4,597</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(4,499)</td>
<td>(3,051)</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>3,770</td>
<td>3,301</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>$118,085</td>
<td>$71,648</td>
</tr>
</tbody>
</table>
10. Retirement Plans (Continued)

The accrued benefit asset (cost) was determined as follows at August 31, 2002:

<table>
<thead>
<tr>
<th></th>
<th>Staff Pension Plan Obligations</th>
<th>Postretirement Medical Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets minus benefit obligation</td>
<td>$ (21,563)</td>
<td>$ (71,648)</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>-</td>
<td>2,684</td>
</tr>
<tr>
<td>Unrecognized loss (gain)</td>
<td>9,307</td>
<td>10,356</td>
</tr>
<tr>
<td><strong>Net amount recognized</strong></td>
<td><strong>$ (12,256)</strong></td>
<td><strong>$ (58,608)</strong></td>
</tr>
</tbody>
</table>

Amounts recognized in the statement of financial position consist of:

- **Prepaid benefit cost**
  - $ -

- **Accrued benefit liability**
  - $ (14,991)

- **Accumulated other comprehensive income**
  - $ 2,735

**Net amount recognized**

- **$ (12,256)**

Less: Accrued health benefit cost at UCSF Stanford Health Care

- $ 14,998

**Prepaid benefit recorded**

- **$ 2,742**

Net benefit (income) expense related to the plans for the year ended August 31, 2002, include the following components:

<table>
<thead>
<tr>
<th></th>
<th>Staff Pension Plan Obligations</th>
<th>Postretirement Medical Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Components of net periodic benefit cost:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$ 1,893</td>
<td>$ 1,962</td>
</tr>
<tr>
<td>Interest cost</td>
<td>7,689</td>
<td>4,597</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(9,237)</td>
<td>-</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>-</td>
<td>633</td>
</tr>
<tr>
<td>Recognized net actuarial (gain) loss</td>
<td>(649)</td>
<td>573</td>
</tr>
<tr>
<td><strong>Total net periodic benefit cost (income)</strong></td>
<td><strong>$ (304)</strong></td>
<td><strong>$ 7,765</strong></td>
</tr>
</tbody>
</table>
10. Retirement Plans (Continued)

The discount rate, expected rate of return on plan assets, and the projected covered payroll growth rates used in determining the above accrued benefit costs are as follows for the year ended August 31, 2002:

<table>
<thead>
<tr>
<th>Staff Pension Plan Obligations</th>
<th>Postretirement Medical Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7.0%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>8.0%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Weighted-average assumptions as of August 31, 2002:

Discount rate 7.0% 7.0%
Expected return on plan assets 8.0% N/A
Rate of compensation increase 5.5% N/A

The assumed health care cost trend rate used to measure the accumulated post-retirement benefit obligation at August 31, 2002 was 13% for the year ended August 31, 2003. The rate was assumed to decrease by 2% for the next two years, 1% for the subsequent four years, and to remain at 5% thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the 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 $4,246 and the aggregate service and interest cost by $301. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by $3,744 and the aggregate service and interest cost by $272.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at August 31, 2002:

<table>
<thead>
<tr>
<th>Education</th>
<th>$ 1,854</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant replacement and expansion</td>
<td>5,700</td>
</tr>
<tr>
<td>Clinical services</td>
<td>2,419</td>
</tr>
<tr>
<td>Indigent care and other</td>
<td>8,376</td>
</tr>
<tr>
<td>Total</td>
<td>$ 18,349</td>
</tr>
</tbody>
</table>
11. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently restricted net assets consist of investments to be held in perpetuity, invested to generate income to support the following purposes at August 31, 2002:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount (in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$1,188</td>
</tr>
<tr>
<td>Indigent care and other</td>
<td>$378</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,566</strong></td>
</tr>
</tbody>
</table>

12. Related-Party Transactions

Shared Services

SHC and LPCH share certain departments, including information systems, human resources, managed care contracting and materials management. Shared service costs are included in the respective categories on the consolidated statement of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $13,309, and is reflected in the consolidated statement 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 statement of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $24,907, and is reflected in the consolidated statement of operations and changes in net assets as net patient service revenue.

Transactions with the University

SHC records operating expense transactions for all transfers to the University and the University’s School of Medicine (“SoM”). In addition, SHC purchases certain services from the University and SoM. Payment for these services is based on management’s best estimate of its market specific circumstances.
12. Related-Party Transactions (Continued)

Transactions with the University (Continued)

Services provided by the University include telecommunications, transportation, utilities, blood products, medical library services, and certain administrative services, which consist of legal, internal audit, and risk management. Total costs incurred by SHC were $44,381 and are reflected in various categories in the consolidated statement of operations and changes in net assets. 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. Such expenses are reported as purchased services in the consolidated statement of operations and changes in net assets, and total $139,746.

Services provided to the University include primarily building maintenance, housekeeping, and security. Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statement of operations and changes in net assets. Reimbursement from the University totaled $15,136 and is reflected in the consolidated statement of operations and changes in net assets as expense recoveries.

SHC also receives certain grant monies for clinical trials from the University. Grant revenue totaled $3,278 and is reflected in the statement of operations and changes in net assets as net patient service revenue.

13. Operating Leases

SHC leases various equipment and facilities under operating leases expiring at various dates. Total rental expense (included in other expense in the consolidated statement of operations and changes in net assets) under these leases for the year ended August 31, 2002 was $10,832. Net minimum future operating lease payments for periods subsequent to August 31, 2002 are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$11,125</td>
</tr>
<tr>
<td>2004</td>
<td>10,096</td>
</tr>
<tr>
<td>2005</td>
<td>8,605</td>
</tr>
<tr>
<td>2006</td>
<td>6,201</td>
</tr>
<tr>
<td>2007</td>
<td>6,140</td>
</tr>
<tr>
<td>Thereafter</td>
<td>5,800</td>
</tr>
<tr>
<td></td>
<td>$47,967</td>
</tr>
</tbody>
</table>
13. Operating Leases (Continued)

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, 2002 are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$1,202</td>
</tr>
<tr>
<td>2004</td>
<td>1,092</td>
</tr>
<tr>
<td>2005</td>
<td>905</td>
</tr>
<tr>
<td>2006</td>
<td>944</td>
</tr>
<tr>
<td>2007</td>
<td>983</td>
</tr>
<tr>
<td>Thereafter</td>
<td>4,915</td>
</tr>
<tr>
<td></td>
<td>$10,041</td>
</tr>
</tbody>
</table>

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, and will be, entering into construction contracts to build the new Cancer Center. The Cancer Center financing sources are from a variety of sources, and include project funds currently in hand, gift funds and other financing options. Total construction commitments for SHC, primarily for the Cancer Center, are approximately $122,000.

SHC and LPCH are directly liable under an irrevocable letter of credit with a bank in the amount of $6,400, which is required as security for the workers’ compensation self-insurance arrangement as described in Note 2. No amounts have been drawn on this letter of credit as of August 31, 2002.

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 Health Insurance Portability and Accountability Act ("HIPAA") was enacted on August 21, 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with certain HIPAA privacy provisions beginning April 2003. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management is in the process of evaluating the impact of this legislation on its operations, including future financial commitments that will be required to comply with the legislation. The Administrative Simplification Compliance Act was enacted in December 2001, which delays implementation of the HIPAA transaction and code set standards by one year. Under this Act, the new compliance date for these transaction and code set standards will be October 16, 2003.

SHC has approximately 50% of employees that are covered by collective bargaining arrangements. There are currently no expired agreements.

15. Functional Expenses

Expenses incurred comprise the following program services for the year ended August 31, 2002:

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient services</td>
<td>$883,528</td>
</tr>
<tr>
<td>Management and general</td>
<td>$25,702</td>
</tr>
<tr>
<td><strong>Total functional expenses</strong></td>
<td><strong>$909,230</strong></td>
</tr>
</tbody>
</table>
APPENDIX B-2

UNAUDITED CONSOLIDATING FINANCIAL STATEMENTS OF
THE CORPORATION AND SUBSIDIARIES
### Stanford Hospital and Clinics

**Supplementary Consolidating Balance Sheet (Unaudited)**

**August 31, 2002**

*(in Thousands)*

<table>
<thead>
<tr>
<th>Assets</th>
<th>SHC</th>
<th>MHA</th>
<th>SHCPIC</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$68,520</td>
<td>$1,232</td>
<td>$2,048</td>
<td>$-</td>
<td>$71,800</td>
</tr>
<tr>
<td>Assets limited as to use, held by trustee</td>
<td>10,620</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,620</td>
</tr>
<tr>
<td>Patient accounts receivable, net of allowance for doubtful accounts of $57,159</td>
<td>124,637</td>
<td>2,057</td>
<td>-</td>
<td>-</td>
<td>126,694</td>
</tr>
<tr>
<td>Other receivables</td>
<td>7,500</td>
<td>-</td>
<td>244</td>
<td>-</td>
<td>7,744</td>
</tr>
<tr>
<td>Inventories</td>
<td>8,736</td>
<td>214</td>
<td>-</td>
<td>-</td>
<td>8,950</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>612</td>
<td>287</td>
<td>725</td>
<td>-</td>
<td>1,624</td>
</tr>
<tr>
<td>Due from related parties</td>
<td>57,914</td>
<td>-</td>
<td>-</td>
<td>(51,999)</td>
<td>5,915</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>278,539</td>
<td>3,790</td>
<td>3,017</td>
<td>(51,999)</td>
<td>233,347</td>
</tr>
<tr>
<td>Investments</td>
<td>144,612</td>
<td>-</td>
<td>34,914</td>
<td>-</td>
<td>179,526</td>
</tr>
<tr>
<td>Assets limited as to use, held by trustee, net of current portion</td>
<td>14,660</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14,660</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>183,585</td>
<td>159</td>
<td>-</td>
<td>-</td>
<td>183,744</td>
</tr>
<tr>
<td>Other assets</td>
<td>16,964</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>16,964</td>
</tr>
<tr>
<td>Investment in Menlo Clinics</td>
<td>(50,455)</td>
<td>-</td>
<td>50,455</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$587,905</td>
<td>$3,949</td>
<td>$37,931</td>
<td>$ (1,544)</td>
<td>$628,241</td>
</tr>
</tbody>
</table>
## Stanford Hospital and Clinics
**Supplementary Consolidating Balance Sheet (Unaudited), Continued**
**August 31, 2002**
**(in Thousands)**

### Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th>SHC</th>
<th>MHA</th>
<th>SHCPIC</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$59,403</td>
<td>$1,901</td>
<td>$562</td>
<td>-</td>
<td>$61,866</td>
</tr>
<tr>
<td>Accrued salaries and related benefits</td>
<td>48,990</td>
<td>333</td>
<td>-</td>
<td>-</td>
<td>49,323</td>
</tr>
<tr>
<td>Due to related parties</td>
<td>7,330</td>
<td>51,999</td>
<td>-</td>
<td>(51,999)</td>
<td>7,330</td>
</tr>
<tr>
<td>Third-party payor settlements</td>
<td>42,465</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42,465</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>2,800</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,800</td>
</tr>
<tr>
<td>Self-insurance reserves, current</td>
<td>10,141</td>
<td>-</td>
<td>5,777</td>
<td>-</td>
<td>15,918</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>171,129</td>
<td>54,233</td>
<td>6,339</td>
<td>(51,999)</td>
<td>179,702</td>
</tr>
<tr>
<td>Self-insurance reserves, net of current portion</td>
<td>64,519</td>
<td>171</td>
<td>21,466</td>
<td>-</td>
<td>86,156</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>183,465</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>183,465</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>419,113</td>
<td>54,404</td>
<td>27,805</td>
<td>(51,999)</td>
<td>449,323</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>148,877</td>
<td>(50,455)</td>
<td>10,126</td>
<td>50,455</td>
<td>159,003</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>18,349</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18,349</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>1,566</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,566</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>168,792</td>
<td>(50,455)</td>
<td>10,126</td>
<td>50,455</td>
<td>178,918</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$587,905</td>
<td>$3,949</td>
<td>$37,931</td>
<td>(1,544)</td>
<td>$628,241</td>
</tr>
</tbody>
</table>
# Supplementary Consolidating Statement of Operations and Changes in Net Assets (Unaudited)

**For the Year Ended August 31, 2002**

*(in Thousands)*

<table>
<thead>
<tr>
<th></th>
<th>SHC</th>
<th>MHA</th>
<th>SHCPIC</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>$841,880</td>
<td>$18,039</td>
<td>$-</td>
<td>$-</td>
<td>$859,919</td>
</tr>
<tr>
<td>Premium revenue</td>
<td>38,251</td>
<td>-</td>
<td>6,412</td>
<td>(5,120)</td>
<td>39,543</td>
</tr>
<tr>
<td>Investment income (loss)</td>
<td>5,127</td>
<td>-</td>
<td>(837)</td>
<td>-</td>
<td>4,290</td>
</tr>
<tr>
<td>Other revenue</td>
<td>9,410</td>
<td>130</td>
<td>-</td>
<td>4,755</td>
<td>14,295</td>
</tr>
<tr>
<td>Net assets released from restrictions used for operations</td>
<td>3,673</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,673</td>
</tr>
<tr>
<td><strong>Total revenues, gains, and other support</strong></td>
<td>898,341</td>
<td>18,169</td>
<td>5,575</td>
<td>(365)</td>
<td>921,720</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>372,941</td>
<td>16,388</td>
<td>-</td>
<td>-</td>
<td>389,329</td>
</tr>
<tr>
<td>Professional services</td>
<td>22,683</td>
<td>1,296</td>
<td>692</td>
<td>(1,168)</td>
<td>23,503</td>
</tr>
<tr>
<td>Supplies</td>
<td>125,439</td>
<td>1,774</td>
<td>-</td>
<td>-</td>
<td>127,213</td>
</tr>
<tr>
<td>Purchased services</td>
<td>213,182</td>
<td>822</td>
<td>-</td>
<td>-</td>
<td>214,004</td>
</tr>
<tr>
<td>Provision for doubtful accounts</td>
<td>80,142</td>
<td>600</td>
<td>-</td>
<td>-</td>
<td>80,742</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>37,253</td>
<td>29</td>
<td>-</td>
<td>-</td>
<td>37,282</td>
</tr>
<tr>
<td>Interest</td>
<td>9,858</td>
<td>2,523</td>
<td>-</td>
<td>(2,523)</td>
<td>9,858</td>
</tr>
<tr>
<td>Other</td>
<td>78,854</td>
<td>3,183</td>
<td>1,755</td>
<td>(5,120)</td>
<td>78,672</td>
</tr>
<tr>
<td>Expense recoveries from related parties</td>
<td>(51,373)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(51,373)</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>888,979</td>
<td>26,615</td>
<td>2,447</td>
<td>(8,811)</td>
<td>909,230</td>
</tr>
<tr>
<td><strong>Excess of revenues, gains, and other support over expenses</strong></td>
<td>9,362</td>
<td>(8,446)</td>
<td>3,128</td>
<td>8,446</td>
<td>12,490</td>
</tr>
<tr>
<td>Change in net unrealized gains and losses on investments</td>
<td>360</td>
<td>-</td>
<td>(23)</td>
<td>-</td>
<td>337</td>
</tr>
<tr>
<td>Net assets released from restrictions used for purchase of property and equipment</td>
<td>296</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>296</td>
</tr>
<tr>
<td>Other</td>
<td>68</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>68</td>
</tr>
<tr>
<td><strong>Increase in unrestricted net assets</strong></td>
<td>10,086</td>
<td>(8,446)</td>
<td>3,105</td>
<td>8,446</td>
<td>13,191</td>
</tr>
</tbody>
</table>
### Stanford Hospital and Clinics

**Supplementary Consolidating Statement of Operations and Changes in Net Assets (Unaudited), Continued**

**For the Year Ended August 31, 2002**

(in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>SHC</th>
<th>MHA</th>
<th>SHCPIC</th>
<th>Eliminations</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in temporarily restricted net assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>4,066</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,066</td>
</tr>
<tr>
<td>Investment income</td>
<td>3,926</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,926</td>
</tr>
<tr>
<td>Net assets released from restrictions for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>(3,673)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(3,673)</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(296)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(296)</td>
</tr>
<tr>
<td></td>
<td>4,023</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,023</td>
</tr>
<tr>
<td>Changes in permanently restricted net assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>(525)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(525)</td>
</tr>
<tr>
<td>Decrease in permanently restricted net assets</td>
<td>(525)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(525)</td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>13,584</td>
<td>(8,446)</td>
<td>3,105</td>
<td>8,446</td>
<td>16,689</td>
</tr>
<tr>
<td>Net assets, beginning of year, as restated</td>
<td>375,054</td>
<td>(42,009)</td>
<td>7,021</td>
<td>43,169</td>
<td>383,235</td>
</tr>
<tr>
<td>Transfer of LPCH to Stanford University</td>
<td>(221,006)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(221,006)</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$ 167,632</td>
<td>$(50,455)</td>
<td>$ 10,126</td>
<td>$ 51,615</td>
<td>$ 178,918</td>
</tr>
</tbody>
</table>
APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS
# Table of Contents

## Summary of Principal Documents

- Summary of Principal Documents: 1

## Definitions of Certain Terms

- Definitions of Certain Terms: 1

## Master Indenture

- General: 17
  - Authorization and Issuance of Obligations: 17
  - Particular Covenants of the Members: 17
  - Obligated Group Membership and Withdrawal: 24
  - Events of Default and Remedies: 26
  - Supplements and Amendments: 29
  - Discharge of Master Indenture: 29

## Supplemental Master Indenture for Obligation No. 9

- General: 29
  - Payments on Obligation No. 9; Credits: 30
  - Prepayment of Obligation: 30
  - Registration, Number, Negotiability and Transfer of Obligations: 31
  - Right to Redeem: 31
  - Gross Revenue Fund: 31

## The Indenture

- Pledge and Assignment; Revenue Fund: 32
  - Establishment of Funds and Accounts: 33
  - Investment of Moneys in Funds and Accounts: 37
  - Events of Default and Remedies: 38
  - Amendment of the Indenture: 39
  - Defeasance: 40

## The Loan Agreement

- Issuance of Obligation No. 9: 41
  - Payment of Loan: 41
  - Loan Default Events and Remedies: 43
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"), and First Interstate Bank, LTD., predecessor trustee to BNY Western Trust Company, as trustee (the "Master Trustee"), the Supplemental Master Indenture for Obligation No. 9, dated as of June 1, 2003 (the "Supplemental Master Indenture"), between the Corporation and the Master Trustee, the Indenture, dated as of June 1, 2003 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and U.S. Bank National Association, as trustee, the Loan Agreement, dated as of June 1, 2003 (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, including Sections 9106 and 8106 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 Corporation, as 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 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.

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, 2003, 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.

**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.

**Bond** or **2003 A Bond** or **2003 Series A Bond** means California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series A, authorized by, and at any time Outstanding pursuant to, the Indenture.

**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.

**Bond Trustee** or **Trustee** means U. S. Bank National Association, 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.

**Bond Year** means, for purposes of the Indenture and the Loan Agreement, the period of twelve consecutive months ending on November 15 of any year in which Bonds are Outstanding, provided that the first Bond Year shall commence on the Closing Date.

**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 is required or authorized by law to remain closed; or (c) a day on which 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, Executive Director, Deputy Executive Director or such other person as may be authorized to sign for the Authority and designated by the Chairman, Executive Director or Deputy 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.

**Closing Date** means the date of the initial issuance and delivery of the Bonds.

**Code** means the Internal Revenue Code of 1986 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, (d) all payment intangibles, (e) all inventory, (f) all medical reimbursement programs and agreements, (g) all contract rights, (h) all real estate leases, and (i) all proceeds of any of the foregoing. The terms "accounts", "health-care-insurance receivables", "payment intangibles," and "inventory" are used herein with meanings as defined in the California Commercial Code Divisions 8 and 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 Closing Date, between the Corporation and U. S. Bank National Association, 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.

**Costs of Issuance** means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, execution, sale and delivery of the Bonds, including...
but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Authority, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

Costs of Issuance Fund means the fund so designated and established pursuant to the provisions of the 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 Means means telegram, telex, teletypewriter, 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 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.

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.

**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 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. The terms "accounts," "inventory," and "payment intangibles" as used in the Master Indenture 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 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.

**Hoover Pavilion** means the property described in Exhibits A-2 and B-2 of the Lease and all buildings and improvements located thereon, together with all furnishings, fixtures and equipment located thereon.

**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 an 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 (other than accounts payable and accruals), 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 any computations or calculations under the Master Indenture such Guaranty or obligation shall be included only one time.

**Indenture** means that certain Indenture, dated as of June 1, 2003, 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, 2003.

**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 for moneys held under the Indenture and then proposed to be invested therein:

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 and including (if such instruments become legal investments under the laws of the State for moneys held under the Indenture) certificates or other instruments evidencing ownership interests in such direct obligations of the United States of America such as CATS, TIGRs, Treasury Receipts and Stripped Treasury Coupons) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America;

2. obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Federal Farm Credits Banks, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or by any agency, department or instrumentality of the United States if such obligations are rated in one of the two highest rating categories by S&P or Moody's;

3. bonds of the State or of any county or city of the State rated by S&P or Moody's in one of the two highest rating categories;

4. any repurchase agreement of any securities enumerated above, where "repurchase agreement" means a purchase of securities by the Trustee pursuant to an agreement by which the seller will repurchase such securities on or before a specified date and for a specified amount and will deliver the underlying securities by book entry, physical delivery or by third-party custodial agreement, and where such securities, for purposes of repurchase under this clause, shall mean securities of the same issuer, description, issue, date and maturity, provided, that any repurchase agreement described in this clause (4) must be with a primary dealer trading with and reporting to the Federal Reserve Bank of New York or any corporation that is organized and operating within the United States that has total assets in excess of five hundred million dollars ($500,000,000) and the unsecured debt obligations or certificates of deposit of which are, or the parent of which is, rated at least "A/P-1" or the equivalent at the time of purchase by each Rating Agency then maintaining a rating on the Bonds, provided, (a) such repurchase agreement is over collateralized according to the guidelines of each Rating Agency then maintaining a rating on the Bonds, (b) the Trustee has possession of the underlying securities, (c) the Trustee has a perfected security interest in the collateral, which collateral is free and clear of third party liens, and (d) in the event that the collateral falls below the requisite level and after one (1) Business Day the collateral is not restored to its requisite
level, the Trustee shall (i) liquidate the investment and (ii) reinvest the proceeds in other Investment Securities and shall so notify the Corporation;

(5) interest-bearing bankers acceptances and demand or time deposits (including certificates of deposit) in banks (including the Trustee) and savings and loan associations, provided such deposits are either (a) secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) or (2) of this definition) of a market value of no less than the amount of money so invested or (b) in banks (including the Trustee) or savings and loan associations having a combined capital and surplus of at least one hundred million dollars ($100,000,000) or (c) fully insured by the Federal Deposit Insurance Corporation;

(6) bankers acceptances or certificates of deposit of, or time deposits in, any bank (including the Trustee), lead bank of a parent holding company, or savings and loan association whose unsecured obligations are rated in one of the two highest rating categories by S&P and Moody's (if such rating agency is then rating the Bonds);

(7) commercial paper rated in one of the two highest rating categories as provided by Moody’s or S&P and issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000);

(8) corporate notes, including medium term notes and deposit notes, of a maximum maturity of five (5) years issued by corporations organized and operating within the United States or by depository institutions licensed by the United States, which are rated at least "A" or "P-1/A-1" or the equivalent at the time of purchase by each Rating Agency then maintaining a rating on the Bonds; and

(9) shares in money market mutual funds issued by diversified management companies, as defined in Section 23701 of the California Revenue and Taxation Code or any successor statute, which are rated at least "A" or "P-1" or the equivalent at the time of purchase by each Rating Agency then maintaining a rating on the Bonds, or similar investment sweep accounts of the Trustee investing primarily in obligations described in clauses (1), (2), (3), (4) or (6).

Lease or Stanford Lease means that certain Lease and License Agreement, dated as of April 20, 1984, between the University, as lessor, and the Corporation, as lessee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

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, 2003, 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 Term 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 trustee to BNY Western Trust Company, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

**Master Trustee** means BNY Western Trust Company, as successor to First Interstate Bank, LTD., a state banking corporation organized and existing under the laws of the State of California, or its successor, as master trustee under the Master Indenture.

**Maximum Annual Bond Service** means, as of any date of calculation, the sum of: (i) the interest falling due with respect to the Bonds then Outstanding (assuming that all Serial Bonds then Outstanding are retired on their respective maturity dates and that all Term Bonds then Outstanding are retired at the times of and in the amounts provided for by Mandatory Sinking Account Payments); (ii) the principal installments for Serial Bonds then Outstanding falling due by their terms; and (iii) the amount of all Mandatory Sinking Account Payments required; all as computed for the Bond Year in which such sum shall be largest.

**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.

**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 and is a Member of the Obligated Group 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 or leases.

**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. 5 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 5.

Obligation No. 6 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 6.

Obligation No. 7 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 7.

Obligation No. 8 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 8.

Obligation No. 9 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 9.

Officer's Certificate means a certificate signed by the Authorized Representative of the Obligated Group Representative

Official Statement means that certain Official Statement, dated the date of sale of the Bonds, relating to the Bonds (including all appendices thereto), used in connection with the sale of the Bonds.

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) selected 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 or 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; and (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.

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: (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation; (2) 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; (3) any Obligation held by any Member of the Obligated Group; and (4) 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.

**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;

(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;

(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;
(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.

**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 with respect to the Trustee, the corporate trust office of the Trustee located at One California Street, Suite 2550, San Francisco, California 94111, Attention: Corporate Trust Administration, or solely with respect to payments on the Bonds and any exchange, transfer or surrender of Bonds, means c/o U. S. Bank National Association, 180 East 5th Street, St. Paul, Minnesota 55101 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.

**Project** means the acquisition, construction and/or equipping of the health care facilities of the Corporation, as more fully described in Exhibit A to the Loan Agreement.

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

**Project Plans** means the plans for the Project on file with the Corporation and made available to the Authority at or prior to the time of execution by the Authority of the Loan Agreement, as such plans may be revised from time to time prior to the completion date of the Project, in accordance with the provisions of the Loan Agreement.

**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.

**Rating Agency** means, as and to the extent applicable, any nationally recognized securities rating service, including Moody's or S&P, then maintain a rating on the Bonds.

**Rating Confirmation** means evidence acceptable to the Trustee from each Rating Agency then maintaining a rating on the Bonds to the effect that any proposed action will not cause a reduction or withdrawal of any then existing rating assigned by such Rating Agency on any Bonds then Outstanding.

**Rebate Fund** means the fund by that name established pursuant to the provisions of the Indenture.
Record Date means the first (1st) day of the month in which such Interest Payment Date occurs, whether or not such day is a Business Day.

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) plus the applicable premium, if any, 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 any Nationally Recognized Municipal Securities Information Repository for purposes of 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, any Obligation or otherwise in connection with a Financing, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including, but not limited to, the payment of principal, interest and premium and lease payments.

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

Reserve Fund Requirement means, as of any date of calculation, an amount equal to the least of (i) Maximum Annual Bond Service on all Bonds Outstanding as of such date, (ii) 125% of average annual debt service on all Bonds Outstanding as of such date and (iii) 10% of the original principal amount of the Bonds.

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. 9, 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 Ratings Group, 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.

Serial Bonds means the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

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. 9 means that certain Supplemental Master Indenture for Obligation No. 9, dated as of June 1, 2003, between the Corporation and the Master Trustee.

Supplement No. 5 means that certain Supplemental Master Indenture for Obligation No. 5, dated as of March 1, 1998, between UCSF-Stanford Health Care and the Master Trustee.

Supplement No. 6 means that certain Supplemental Master Indenture for Obligation No. 6, dated as of March 1, 1998, between UCSF-Stanford Health Care and the Master Trustee.

Supplement No. 7 means that certain Supplemental Indenture for Obligation No. 7, dated as of March 1, 1998, between UCSF-Stanford Health Care and the Master Trustee.

Supplement No. 8 means that certain Supplemental Master Indenture for Obligation No. 8, dated as of March 1, 1998, between UCSF-Stanford Health Care and the Master Trustee.
Supplement No. 9 or Supplement means that certain Supplemental Master Indenture for Obligation No. 9, dated as of June 1, 2003, between the Corporation and the Master Trustee.

Tax Agreement means that certain Tax Certificate and Agreement, dated the Closing 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 the 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 or dates.

Trustee or Bond Trustee means U. S. Bank National Association, 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.

2003 A Bonds or 2003 Series A Bonds or Bonds means California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series A, authorized by, and at any time Outstanding pursuant to, the Indenture.

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.

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.

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.

Particular Covenants of the Members

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 hereunder) 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.

(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 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, 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.

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 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 Incumbrances, 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; or

(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.

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 transaction, 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 that affect or relate to any Financing, 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 under the Master Indenture to the same extent as the Members of the Obligated Group; and all Financings 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.

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 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 the principal of, redemption premium, if any, or interest on an Obligation;

(b) Default in the payment of any Indebtedness for borrowed moneys (other than (i) Non-Recourse Indebtedness, (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 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 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 maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments or the principal portion related to lease payments of any Obligations that shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amounts available shall not be sufficient to pay in full all the Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest and lease payments then due and unpaid upon the Obligations without preference or priority, 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.

(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. 9

General

Supplement No. 9 provides for the issuance of Obligation No. 9 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 9 further secures the obligation of the Corporation arising under and pursuant to the Loan Agreement.
In addition, pursuant to Supplement No. 9, the Master Indenture is being amended to provide a Gross Revenue Fund and a security interest in Collateral, including the Gross Revenue Fund and Gross Revenues.

Payments on Obligation No. 9; Credits

Principal of and interest and any applicable redemption premium on Obligation No. 9 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. 9" below regarding prepayment, payments on the principal of and premium, if any, and interest on Obligation No. 9 shall be made at the times and in the amounts specified in Obligation No. 9 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, interest or premium on Obligation No. 9, specifying the amount paid, and identifying such payment as a payment on Obligation No. 9.

The Corporation shall receive credit for payment on Obligation No. 9, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 9 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. 9;

(ii) On installments of principal of Obligation No. 9 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. 9;

(iii) On installments of principal and interest, respectively, on Obligation No. 9 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 Investment Securities 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. 9, 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. 9 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. 9 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. 9 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. 9 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. 9. Prepayments may be made by payments of cash or surrender of Bonds as described above under the caption "Payments on Obligation No. 9; Credits". All such prepayments (and the additional payment of any amount necessary to pay the applicable redemption premium, if any, payable upon the redemption of Bonds) 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. 9 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. 9 remain unpaid, the Corporation shall not be relieved of its obligations under the Master Indenture, including Supplement No. 9.

Prepayments made under Supplement No. 9 shall be credited against amounts to become due on Obligation No. 9 as described above, under the caption "Payments on Obligation No. 9; Credits" and as described in the Loan Agreement.

The Corporation may also prepay all of its indebtedness under Obligation No. 9 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. 9 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. 9 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. 9 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. 9 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. 9 be redeemed unless a corresponding amount of Bonds is also redeemed.

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 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.

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, premium, if any, 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 Bonds) held in any fund or account established pursuant to the Indenture (excluding moneys on deposit in the Rebate Fund, Administrative Fees and Expenses payable to the Authority 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 to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, 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 rights of the Authority to receive notices), and Obligation No. 9. 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. 9. 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 a Costs of Issuance Fund, an Interest Fund, a Revenue Fund, a Reserve Fund, a Principal Fund, including the Sinking Accounts to be established therein, a Project Fund, 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.

Application of Costs of Issuance Fund. Moneys deposited in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon receipt by the Trustee of a Requisition of the Corporation. At the end of 180 days from the date of issuance of the Bonds, or upon the earlier Request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund.

Application of Project Fund. Moneys deposited in the Project Fund shall be used and withdrawn by the Trustee, upon receipt of a Requisition of the Corporation, to pay the costs of the Project, including any item of cost within the purview of the definition of the term "Cost" in the Act (including interest payable on the Bonds prior to and for one year after completion of the Project). The Trustee shall not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, that has not been released or will not be released simultaneously with such payment, other than materialmen's or mechanics' liens accruing by mere operation of law. No moneys in the Project Fund shall be used to pay Costs of Issuance.

When the Project shall have been completed, there shall be delivered to the Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Trustee shall, as directed by said Certificate, transfer any remaining balance in such Project Fund, less the amount of any such retention, to the Interest Fund.

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. 9; (3) after completion of the Project, 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. 9, but excluding the principal component of all cash
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 the maturity of Term Bonds to which such Sinking Account relates on their stated maturity dates, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Fund a separate account for each maturity of the Term Bonds. On each Mandatory Sinking Account Payment date established for the respective Sinking Account, 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 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 such maturity 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 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 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 the Term Bonds of such maturity), or Term Bonds of such 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 Indenture, 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. Term 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 Bonds of such maturity, then as a credit against such future Mandatory Sinking Account Payments for Bonds of such 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. 9; and (3) after completion of the Project, 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 financed by the proceeds of the Bonds; (2) the principal component of all cash prepayments made pursuant to Obligation No. 9 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 financed by the proceeds of the Bonds; and (3) after completion of the Project, 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 Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to the Mandatory Sinking Account Payments specified by the Corporation in writing.

Funding and Application of the Reserve Fund. (a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Reserve Fund. All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund or (together with any other money available therefor) for the redemption of all Bonds then Outstanding. Prior to making a withdrawal from the Reserve Fund to make up a deficiency in the Interest Fund or the Principal Fund, the Trustee shall notify the Corporation of such deficiency and the Corporation may deposit with the Trustee all or part of such deficiency. The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Reserve Fund.

(b) In lieu of maintaining and depositing cash in the Reserve Fund, the Corporation may deposit with the Trustee a letter of credit, (i) which is issued by a bank with a credit rating at the time of deposit of such letter of credit into the Reserve Fund of at least investment grade from each Rating Agency then rating the Bonds at the request of the Corporation, (ii) the repayment obligation with respect to which is not secured by a lien on assets of the Corporation senior to any lien which secures the Bonds and (iii) which has a term of at least five (5) years from the date of issuance thereof. If the credit rating of the bank issuing such letter of credit falls below investment grade, the Corporation shall within twelve (12) months of such downgrading either (i) substitute a new letter of credit satisfying the requirements of this subsection (b), (ii) fund the Reserve Fund through the deposit of cash, (iii) fund the Reserve Fund through the deposit of an irrevocable surety bond policy satisfying the requirements set forth in subsection (c) hereof, (iv) fund the Reserve Fund as provided in subsection (d) hereof or (v) fund the Reserve Fund through a combination of (i), (ii), (iii) and (iv). At least six (6) months prior to the expiration date of a letter of credit on deposit in the Reserve Fund, the Corporation shall either (i) substitute a new letter of credit satisfying the requirements of this subsection (b), (ii) fund the Reserve Fund through the deposit of cash, (iii) fund the Reserve Fund through the deposit of an irrevocable surety bond policy satisfying the requirements set forth in subsection (c) hereof, (iv) fund the Reserve Fund as provided in subsection (d) hereof or (v) fund the Reserve Fund through a combination of (i), (ii), (iii) and (iv). Any such letter of credit shall permit the Trustee to draw amounts thereunder for deposit in the Reserve Fund which, together with any moneys on deposit in, or surety bond policy available to fund, or any moneys provided by a draw on an instrument provided pursuant to subsection (d) hereof to fund, the Reserve Fund, are not less than the Reserve Fund Requirement and which may be applied to any purpose for which moneys in the Reserve Fund may be applied. The Trustee shall make a drawing on such letter of credit (i) whenever moneys are required for the purposes for which Reserve Fund moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys, including moneys available from a draw on any instrument provided pursuant to subsection (d) hereof (hereinafter referred to as a "Reserve Instrument"), or an irrevocable surety bond policy are available in the Reserve Fund in the amount of the Reserve Fund Requirement.

(c) In lieu of maintaining and depositing cash in the Reserve Fund, the Corporation also may maintain in effect an irrevocable surety bond policy, (i) which is issued by a bond insurance company with a claims-paying ability rating at the time of deposit of such surety bond policy into the Reserve Fund of at least investment grade from each Rating Agency then rating the Bonds at the request of the Corporation, (ii) the repayment obligation with respect to which is not secured by a lien on assets of the Corporation senior to any lien which secures the Bonds and (iii) has a term of at least five (5) years from the date of issuance thereof. If the credit rating of the bond insurance company issuing such surety bond policy falls below investment grade, the Corporation shall within twelve (12)
months of such downgrading either (i) substitute a new surety bond policy satisfying the requirements of this subsection (c), (ii) fund the Reserve Fund through the deposit of cash, (iii) fund the Reserve Fund through deposit of a letter of credit satisfying the requirements set forth in subsection (b) hereof, (iv) fund the Reserve Fund as provided in subsection (d) hereof or (v) fund the Reserve Fund through a combination of (i), (ii), (iii) and (iv). At least six (6) months prior to the expiration date of a surety bond policy on deposit in the Reserve Fund, the Corporation shall either (i) substitute a new surety bond policy satisfying the requirements of this subsection (c), (ii) fund the Reserve Fund through the deposit of cash, (iii) fund the Reserve Fund through the deposit of a letter of credit satisfying the requirements set forth in subsection (b) hereof, (iv) fund the Reserve Fund as provided in subsection (d) hereof or (v) fund the Reserve Fund through a combination of (i), (ii), (iii) and (iv). Any such surety bond policy shall permit the Trustee to obtain amounts thereunder for deposit in the Reserve Fund which, together with any moneys on deposit in, including moneys available from a draw on any Reserve Instrument, or letter of credit available to fund, the Reserve Fund, are not less than the Reserve Fund Requirement and which may be applied to any purpose for which moneys in the Reserve Fund may be applied. The Trustee shall make a drawing on such surety bond policy (i) whenever moneys are required for the purposes for which Reserve Fund moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys, including moneys available from a draw on any Reserve Instrument, or a letter of credit are available in the Reserve Fund in the amount of the Reserve Fund Requirement.

(d) In lieu of maintaining and depositing cash, a letter of credit or a surety bond policy in the Reserve Fund, in order to satisfy all or any portion of the Reserve Fund Requirement, the Corporation may also provide a Reserve Instrument in the form of guaranty or line of credit or other instrument provided by The Board of Trustees of the Leland Stanford Junior University or any affiliate thereof (hereinafter referred to as a "Reserve Instrument Provider"), provided that (i) the Reserve Instrument Provider or the guarantor of the obligations of the Reserve Instrument Provider with respect to the Reserve Instrument, if any, shall be rated in one of the two highest Rating Categories of each Rating Agency then maintaining a rating on the Bonds at the request of the Corporation. If the credit rating of the Reserve Instrument Provider or the guarantor of the obligations of the Reserve Instrument Provider with respect to the Reserve Instrument subsequently falls below the Rating Category specified above, the Corporation shall within twelve (12) months of such downgrading either (i) secure a new Reserve Instrument satisfying the requirements of this subsection (d), (ii) fund the Reserve Fund through the deposit of cash, (iii) fund the Reserve Fund through the deposit of a letter of credit satisfying the requirements set forth in subsection (b) hereof; (iv) fund the Reserve Fund through the deposit of a surety bond satisfying the requirements set forth in subsection (c) hereof or (iv) fund the Reserve Fund through a combination of (i), (ii), (iii) and (iv). Any such Reserve Instrument shall permit the Trustee to obtain amounts thereunder for deposit in the Reserve Fund which, together with any moneys on deposit in, or letter of credit or surety bond policy available to fund, the Reserve Fund, are not less than the Reserve Fund Requirement and which may be applied to any purpose for which moneys in the Reserve Fund may be applied. The Trustee shall make a drawing on Reserve Instrument (i) whenever moneys are required for the purposes for which Reserve Fund moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys, including moneys available from a draw on any Reserve Instrument, or a letter of credit are available in the Reserve Fund in the amount of the Reserve Fund Requirement.

(e) If subsequent to the Closing Date, each Rating Agency then maintaining a rating on the Bonds at the request of the Corporation shall assign a rating of at least A+ or its equivalent to the Bonds, the Trustee shall transfer the amount then on deposit in the Reserve Fund to the Corporation upon receipt of the Request of the Corporation (the "Reserve Fund Release Request"), a copy of which Reserve Fund Release Request shall be accompanied by a Rating Confirmation provided by each Rating Agency then maintaining a rating on the Bonds at the request of the Corporation. A copy of such Reserve Fund Release Request shall be provided to the Authority. In the event that the rating assigned to the Bonds at the request of the Corporation by any Rating Agency shall subsequently fall below A+ or its equivalent, the Corporation shall replenish the amount on deposit in the Reserve Fund, such replenishment to commence the month following the month the Corporation received notification of such reduction in rating. As further provided pursuant to the provisions of the Loan Agreement, in the event the Corporation is required to replenish the amount on deposit in the Reserve Fund, effective on or before the second Business Day of the month immediately following the month the Corporation received notification of such reduction in rating, the Corporation shall forward to the Trustee for deposit in the Reserve Fund an amount equal to one-twelfth of the Reserve Fund Requirement, such deposits to be made by the Corporation on a monthly basis until the amount on deposit is equal to the Reserve Fund Requirement.
Funding and Application of the Rebate Fund. The Trustee shall establish and maintain 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 defined 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 (9) of the definition thereof. Moneys in the Reserve Fund shall be invested in Investment Securities with an average aggregate weighted term not greater than ten (10) years. 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 Interest Fund, Project Fund and the Rebate Fund shall be deposited when received in each such fund. 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 (1) prior to the delivery of the Certificate of the Corporation described above under the caption "Establishment and Application of Project Fund," in the Project Fund, and (2) thereafter, 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, by declaration
or otherwise, or default in the redemption from the Sinking Account of any Term Bonds in the amounts and at the
times provided therefor;

(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. 9 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. 9.

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 set forth in such notice of acceleration (which shall be not more than seven days from the date of such
declaration).

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. 9 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. 9, 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 twenty-five percent (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.

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. 9, 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. 9, 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 consents 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 any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bond shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provisions of the Indenture.

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, or reduce any premium payable upon the redemption thereof, 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 obtain or maintain a rating for the Bonds;

(6) to make any amendment appropriate or necessary to accommodate any letter of credit, surety bond or similar instrument delivered to the Trustee to fund all or any portion of the Reserve Fund; or

(7) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders.

Defeasance

Discharge of 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 or securities 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 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 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. 9

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. 9, concurrently
with the issuance and delivery of the Bonds, Obligation No. 9. The Authority agrees that Obligation No. 9 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 second 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 second 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). The Corporation further agrees to pay, or cause to be paid on or before the
second Business Day next preceding the first day of each month (i) one-twelfth of the aggregate amount of each
prior withdrawal from the Reserve Fund (if any) for the purpose of making up a deficiency in the Interest Fund or
Principal Fund (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn)
and (ii) one-third of the amount of any deficiency in the Reserve Fund resulting from the valuation specified in the
provisions of the Indenture, if, upon such valuation, the amount on deposit in the Reserve Fund is less than 98% of
the Reserve Fund Requirement. In addition, in the event that the Corporation is required to replenish the Reserve
Fund as provided in the provisions of the Indenture, the Corporation agrees to replenish the Reserve Fund in
accordance with the provisions set forth in the provisions of the Indenture.

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. 9 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. 9, 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 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. 9, Obligation No. 9 or the Indenture; and

(d) The annual fee of the Authority and reasonable fees and expenses of the Authority or any agent, selected by the Authority to act on its behalf in connection with the Loan Agreement, Supplement No. 9, Obligation No. 9, 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, Supplement No. 9, Obligation No. 9, 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, Supplement No. 9, and Obligation No. 9.

**Obligations Unconditional.** The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 9, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 9, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 9, the Master Indenture or the Indenture. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation:

(a) Shall pay all amounts required under the Loan Agreement and under Obligation No. 9 without abatement, deduction or set-off except as otherwise expressly provided in the Loan Agreement;

(b) Shall not suspend or discontinue any payments due under the Loan Agreement or under Obligation No. 9 for any reason whatsoever, including, without limitation, any right of set-off or counterclaim;

(c) Shall perform and observe all its other agreements contained in the Loan Agreement; and

(d) Except as provided in the Loan Agreement, shall 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, 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 in Outstanding Bonds, 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. 9 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. 9 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 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, 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. 9 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. 9 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
Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the California Health Facilities Financing Authority (the "Issuer") of $___________ aggregate principal amount of California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series A (the "Bonds"), issued pursuant to the provisions of the California Health Facilities Financing Authority Act (constituting Part 7.2 of Division 3 of Title 2 of the California Government Code) and an Indenture, dated as of June 1, 2003 (the "Indenture"), between the Issuer and U. S. Bank National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Stanford Hospital and Clinics (the "Borrower") pursuant to a Loan Agreement, dated as of June 1, 2003 (the "Loan Agreement"), between the Issuer and the Borrower. 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, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Issuer and the Borrower, opinions of counsel to the Issuer, the Trustee and the Borrower, certificates of the Issuer, the Trustee, the Borrower 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 Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Borrower 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 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.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

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. Our engagement with respect to the Bonds has concluded with their issuance, and 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, 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 or waiver 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 real or personal property 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 property. 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 (including proceeds of the sale of the Bonds) 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. The Indenture also creates a valid assignment to the Trustee, for the benefit of the Holders
from time to time of the Bonds, of the right, title and interest of the Issuer in the Loan Agreement (subject to the
limitations described 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 and assignment. 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,
although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum
taxable income. We express no opinion regarding 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
This Continuing Disclosure Agreement, dated June __, 2003 (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 U. S. Bank National Association, 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 $______________ in aggregate principal amount of the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series A (the "Bonds"), which are being issued pursuant to an Indenture, dated as of June 1, 2003 (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, 2003 (the "Loan Agreement"), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement are secured by Stanford Hospital and Clinics Obligation No. 9 (“Obligation No. 9”), issued by the Corporation pursuant to Supplemental Master Indenture for Obligation No. 9, dated as of June 1, 2003 (“Supplement No. 9”), between the Corporation and BNY Western Trust Company, as trustee (the "Master Trustee"). Supplement No. 9 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. 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. 9, is hereinafter referred to as the Master Indenture.

Pursuant to Section 6.10 of the Indenture and Section 5.16 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 U. S. Bank National Association, 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 each National Repository and the State Repository.

Rule shall mean 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.

State shall mean the State of California.

State Repository shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of execution and delivery of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual 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, 2003, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 fifteen (15) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repositories, the Corporation shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by fifteen (15) 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 Repositories by the date required in subsection (A), the Trustee shall send a notice to each 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 each Repository, in which case the Corporation shall: (i) determine prior to the date for providing the Annual Report for such year the name and address of each National Repository and each State Repository, if any; and (ii) 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, stating the date it was provided and listing all the Repositories to which it was provided, the Dissemination Agent shall: (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and (ii) 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, stating the date it was provided, and
listing all the Repositories to which it was provided.

(E) In addition to providing the Annual Report required to be filed pursuant to subsection
(A), the Corporation shall, or shall cause the Dissemination Agent to, provide (i) to any Beneficial Owner of at least
$1,000,000 aggregate principal amount of Bonds which shall submit a request to the Corporation at least 5 Business
Days prior to the end of such fiscal quarter and (ii) to each Repository, unaudited financial information on a
quarterly basis, such unaudited financial information to be provided for the first fiscal quarter, the second fiscal
quarter, the third fiscal quarter and the fourth 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 the table entitled "Historical Utilization" set forth in Appendix A of the final Official Statement, dated
June __, 2003 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, 2003, not later than 60 days after the end of the first fiscal quarter, the second fiscal quarter, the third
fiscal quarter and the fourth fiscal quarter of each fiscal year of the Members of the Obligated Group, the
Corporation shall, or shall cause the Dissemination Agent to, provide a Quarterly Report which is consistent with
this subsection (E), such Quarterly Report to be provided to any Beneficial Owner who shall have filed a request
with the Corporation in accordance with the requirements set forth herein and to each Repository.

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) the table entitled "Historical Utilization" set forth under the caption "Services, Facilities, and
Operations-Utilization;" (ii) the table entitled "Historical and ProForma Consolidated Capitalization" set forth under
the caption "Summary of Financial Information-Historical and Pro Forma Capitalization;" (iii) the table entitled
"Consolidated Liquidity" set forth under the caption "Summary of Financial Information-Liquidity;" and (iv) the
table entitled "Pro Forma Debt Service Coverage" set forth under the caption "Summary of Financial Information-
Pro Forma 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 each
of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final
official statement, it must be available from the Municipal Securities Rulemaking Board. 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 Repositories, 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.

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 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 Outstanding Bonds, 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 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) 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
Room H3200, M/C 5230
Stanford, California 94305
Attention: Chief Financial Officer
Telephone: (650) 736-0029
Telecopy: (650) 723-7457
(ii) If to the Trustee or the Dissemination Agent:

U. S. Bank National Association
One California Street, Suite 2550
San Francisco, California 94111
Attention: Corporate Trust Administration
Telephone: (415) 273-4514
Telecopy: (415) 273-4591

(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. 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

U. S. BANK NATIONAL ASSOCIATION,
as Trustee and Dissemination Agent

By: ________________________________
    Authorized Officer
EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: California Health Facilities Financing Authority (the "Authority")


Name of Corporation: Stanford Hospital and Clinics (the "Corporation")

Date of Issuance of Bonds: June __, 2003

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.10 of the Indenture, dated as of June 1, 2003, between the Authority and U. S. Bank National Association, as trustee, and as required by Section 5.16 of the Loan Agreement, dated as of June 1, 2003, between the Authority and the Corporation. [The Corporation anticipates that the Annual Report will be filed by ______________.]

Dated:__________________

U. S. BANK NATIONAL ASSOCIATION
as trustee on behalf of Stanford Hospital and Clinics

cc: Authority
    Corporation