

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.*

**\$156,200,000**

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**Refunding Revenue Bonds**

**(STANFORD HOSPITAL AND CLINICS)**



Stanford University Medical Center

**\$70,500,000**

**2008 Series A-1**

**\$85,700,000**

**2008 Series A-3**

**(Price of all Bonds: 100%)**

**Dated:** Date of Delivery

**Due:** November 15, 2040

The 2008 A-1 and the 2008 A-3 Bonds (collectively, the “Bonds” and each a “Series” of Bonds) are being issued as bonds that bear interest at a Long Term Rate. The Bonds of each Series initially will bear interest at the Long Term Rate and for the Long Term Rate Periods set forth on the inside cover page hereof. As described herein, the interest rate on the Bonds of any Series and the period with respect to which such rate is in effect may be adjusted to a Daily Mode, a Weekly Mode, a Commercial Paper Mode, another Long Term Mode or an Auction Mode (each an “Interest Rate Mode”), as directed by Stanford Hospital and Clinics (the “Corporation”) subject to the limitations and conditions described herein.

The Bonds will be issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form (without physical certificates) in denominations of \$5,000 and any integral multiple thereof while the Bonds of either Series bear interest at a Long Term Rate. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, (i) payments of the principal and purchase price of and premium, if any, and interest on the Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of redemption, notice of conversion to another Interest Rate Mode or notice of mandatory tender, shall be mailed only to Cede & Co. See APPENDIX E – “BOOK-ENTRY SYSTEM” herein.

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by the Corporation under the Loan Agreement and from certain funds held under the Indenture. The obligation of the Corporation to make such payments is evidenced and secured by the issuance of Obligation No. 19 under the Master Indenture, described herein, whereunder the Corporation and any future members of the Obligated Group (collectively, the “Obligated Group”) jointly and severally are obligated to make payments on Obligation No. 19 in an amount sufficient to pay the principal of and premium, if any, and interest on the Bonds when due. It is currently anticipated that the Authority will issue three additional series of bonds under the Indenture which will be equally and ratably secured by payments under the Loan Agreement and Obligation No. 19. One of such series of bonds will be secured by a letter of credit. Currently, the Corporation is the sole member of the Obligated Group.

**The Bonds of each Series are subject to mandatory tender for purchase on the day after the last day of the Long Term Rate Period for such Series, as described herein. The Bonds are subject to mandatory, optional and special optional redemption prior to maturity at the direction of the Corporation under certain circumstances described herein.**

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 19 AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THE BONDS OR THE PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

**This Official Statement describes certain terms of the Bonds applicable while such Bonds accrue interest at a Long Term Rate. This Official Statement is not intended to provide information with respect to the Bonds if the Bonds are converted to any other Interest Rate Mode.**

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

The Bonds are offered when, as and if received by the Underwriters, subject to prior sale, to the withdrawal or modification of the offer without notice, and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Corporation by its counsel, Ropes & Gray LLP, San Francisco, California, for the Authority by its counsel, the Attorney General of the State of California, and for the Underwriters by their counsel, Sidley Austin LLP, San Francisco, California. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC, on or about June 2, 2008.

**HONORABLE BILL LOCKYER**  
*Treasurer of the State of California*

**MORGAN STANLEY**

**GOLDMAN, SACHS & CO.**

May 28, 2008

† See “Ratings.”

**\$156,200,000**  
**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**Refunding Revenue Bonds**  
**(STANFORD HOSPITAL AND CLINICS)**  
**2008 Series A-1 and 2008 Series A-3**

<b>Series</b>	<b>Principal Amount</b>	<b>Long-Term Rate Period Ending</b>	<b>Interest Rate</b>	<b>CUSIP*</b>
2008 Series A-1	\$70,500,000	June 15, 2009	1.80%	13033F3Q1
2008 Series A-3	85,700,000	June 15, 2011	3.45	13033F3R9

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

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

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

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

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS  
IN THIS OFFICIAL STATEMENT

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

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

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**OFFICIAL STATEMENT**

**\$156,200,000**

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
Refunding Revenue Bonds  
(STANFORD HOSPITAL AND CLINICS)  
2008 Series A-1 and 2008 Series A-3**

**INTRODUCTORY STATEMENT**

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

**Purpose of this Official Statement**

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of \$156,200,000 aggregate principal amount of California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), consisting of 2008 Series A-1 Bonds in the principal amount of \$70,500,000 and 2008 Series A-3 Bonds in the principal amount of \$85,700,000 (collectively, the “Bonds”). All Bonds will initially bear interest at the Long Term Rate for the Long Term Rate Periods ending on the dates set forth on the inside cover page hereof.

The proceeds of the Bonds will be used to refund outstanding debt obligations and pay off a line of credit used to redeem outstanding debt obligations of the Stanford Hospital and Clinics (the “Corporation”) currently outstanding in the aggregate principal amount of \$156,200,000. See “THE PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

**Stanford Hospital and Clinics**

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

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

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

### **Plan of Finance**

As described herein under “Plan of Finance,” the issuance of the Bonds is part of a debt restructuring plan that involves the issuance of five series of bonds (collectively, the “2008 Bonds”), the proceeds of which will be used to refund five prior series of Authority bonds issued for the benefit of the Corporation in 2006 (the “2006 Bonds”), and the conversion of the interest rate mode on three other series of bonds issued by the Authority in 2003 (the “Conversion Bonds”). The Bonds and the three other series of bonds to be issued by the Authority (the “Other 2008 Bonds”) will all be issued pursuant to the Indenture (defined below), and will all be payable, equally and ratably (except as described below) from payments made by the Corporation under the Loan Agreement and Obligation No. 19 (both as defined below).

One series of the Other 2008 Bonds, the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-2 (the “2008 Series A-2 Bonds”), are expected to be secured by a direct-pay letter of credit issued by Bank of America, N.A. (the “Letter of Credit”) when the 2008 Series A-2 Bonds are issued by the Authority.

### **Security for the Bonds**

The Bonds are limited obligations of the California Health Facilities Financing Authority (the “Authority”), secured under the provisions of that certain indenture, dated as of June 1, 2008 (the “Indenture”), between the Authority and Wells Fargo Bank, National Association, as trustee (the “Bond Trustee”), and will be payable on a pro rata basis with the Other 2008 Bonds solely from payments (the “Loan Repayments”) made by the Corporation under the Loan Agreement, dated as of June 1, 2008 (the “Loan Agreement”), between the Authority and the Corporation, from payments made by the Corporation on Obligation No. 19 (hereinafter defined), and from certain funds held under the Indenture. The amounts required to be paid under the Loan Agreement and Obligation No. 19 are required to be equal to debt service on all of the 2008 Bonds and other amounts specified therein, including the purchase price of Bonds that have been tendered for purchase and not remarketed. All capitalized terms used in this Official Statement and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture or the Master Indenture, as applicable. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS, DEFINITIONS OF CERTAIN TERMS.”

The obligation of the Corporation under the Loan Agreement with respect to the 2008 Bonds will be further evidenced and secured by an obligation (“Obligation No. 19”) to be issued under the Master Indenture of Trust, dated as of December 1, 1990 (as amended and supplemented, the “Master Indenture”), between the Corporation, formerly known as Stanford University Hospital, and The Bank of New York Trust Company, N.A., as successor master trustee (the “Master Trustee”), as supplemented and amended by the Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008 (“Supplement No. 19”), between the Corporation and the Master Trustee. Obligation No. 19, 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 BONDS.” Currently, the Corporation is the only Member of the Obligated Group, which is created pursuant to the Master Indenture.

### **Additional Indebtedness**

No bonds other than the 2008 Bonds may be issued under the Indenture. However, as described below under “SECURITY FOR THE BONDS,” the Corporation is permitted to incur additional indebtedness under the Master Indenture, subject to the financial tests and limitations set forth therein and in Appendix C attached hereto.

See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS - MASTER INDENTURE—Covenants—Limitations on Additional Indebtedness.”

For a description of certain events that could require the incurrence of additional indebtedness of the Corporation, see “SERVICES, FACILITIES AND OPERATIONS—Principal Patient Services—Additional Facility Needs” in APPENDIX A attached hereto.

### **Bondholders’ Risks**

There are risks associated with the purchase of the Bonds. See “BONDHOLDERS’ RISKS” for a discussion of certain of these risks.

### **Availability of Documents**

Copies of the Master Indenture, Supplement No. 19, the Indenture, the Loan Agreement, Obligation No. 19 and the Continuing Disclosure Agreement, each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the 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 (the “State”) organized and existing under and by virtue of the Act. The intent of the California legislature in enacting the Act was to provide financing to health facilities and to pass along to the consuming public all or part of any savings realized by a participating health institution (as defined in the Act) as a result of tax-exempt financing. Pursuant to the Act, the Authority is authorized to issue its revenue bonds for the purpose of financing (including reimbursing expenditures made or refinancing indebtedness incurred for such purpose) the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of health facilities operated by participating health institutions. The State Treasurer is authorized under the Act to sell such revenue bonds on behalf of the Authority.

### **Organization and Membership**

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

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

**JOHN CHIANG, *State Controller and Ex Officio Member of the Authority.*** Residence: Torrance, California. Background: Mr. Chiang graduated with honors from the University of South Florida with a degree in Finance, and received his law degree from the Georgetown University Law Center. As State Controller, he presides

over 76 boards and commissions, including the Franchise Tax Board, the California Public Employees' Retirement System Board, and the California State Teachers' Retirement System Board. Prior to being elected State Controller, he was elected to the Board of Equalization in 1998, leading with innovative taxpayer-friendly services like the State's free income tax return preparation service, ReadyReturn. Mr. Chiang's record of public service has been recognized with many awards and distinctions including the Award for Excellence by a Government Official from the Los Angeles County Bar Association.

**MICHAEL C. GENEST, *State Director of Finance and Ex Officio Member of the Authority.*** Mr. Genest was appointed in December, 2005. Prior to that time he served as Chief Deputy Director and Acting Director of Finance, from September 2005, and as Chief Deputy Director from November 2003 to February 2005. Between February and September of 2005 he served as Undersecretary of the Health and Human Services Agency. Before his initial appointment to the Department of Finance, Mr. Genest worked for the Director of the California State Republican Fiscal Office. He has also served as the Deputy Director for Welfare Programs in the Department of Social Services and worked in the Legislative Analyst's Office for ten years.

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

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

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

**RONALD JOSEPH, *Member.*** Term expired March 31, 2008, but Mr. Joseph will continue to serve until reappointed or the position otherwise is filled. Residence: Sacramento, California. Background: Bachelor's degree in Government, California State University, Sacramento. Mr. Joseph currently manages RJAdvisors, a firm specializing in government consulting. From 2004 to 2006, Mr. Joseph served as Director of the California Department of General Services. From 1995 to 2004, he was the Executive Director of the Medical Board of California, and from 1991 to 1995 he was the Chief Deputy Director of the Department of Health Services. His service in California State Government previously included executive level assignments at the State Teachers retirement System and the Department of Economic Opportunity.

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

Public Administrator/Public Guardian. She served on the staff of the California Revenue and Taxation Committee from 1992 to 1994 and served on the legislative staff of Assemblyman Phillip Isenberg and Senator Herschel Rosenthal.

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

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

**Advisors to the Authority.** Macias Gini and O'Connell LLP, Sacramento, California serves as the financial analyst to the Authority. Public Financial Management, Inc., San Francisco, California, serves as the Authority's pricing advisor.

### **Outstanding Indebtedness of the Authority**

As of March 31, 2008, the Authority had issued obligations aggregating \$19,714,127,017 in original principal amount and had outstanding obligations in the aggregate principal amount of \$7,595,647,351.

### **THE BONDS**

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

***This Official Statement describes certain terms of the Bonds applicable while such Bonds accrue interest at Long Term Rates. There are significant changes in the terms of the Bonds while such Bonds accrue Interest at a Daily Rate, Weekly Rate, Commercial Paper Rate or Auction Rate.***

### **General Description**

The Bonds will be issued in the respective aggregate principal amounts set forth on the cover page hereof and will mature on the date set forth on the cover page hereof, subject to redemption prior to maturity. The Bonds as initially issued shall be in denominations of \$5,000 and integral multiples in excess thereof. All of the Bonds of any Series may be converted to a Daily, Weekly, Commercial Paper, Long Term or Auction Mode as provided in the Indenture. Each Series of the Bonds is subject to mandatory tender and purchase on the day after the end of the Long Term Rate Period for such Series pursuant to the Indenture. While the Bonds bear interest at the Long Term Rate, interest shall be computed upon the basis of a 360-day year consisting of twelve 30-day months.

### **Book-Entry System**

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

The Corporation and the Authority cannot and do not give any assurances that DTC will distribute to DTC Participants or that DTC Participants or others will distribute to the Beneficial Owners payments of principal of and interest and premium, if any, on the Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Corporation nor the Authority is responsible or liable for the failure of DTC or any DTC Participant or DTC Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

### **Description of the Long Term Rate Period**

The initial Long Term Rate Period and the initial Long Term Rate with respect to each Series of Bonds is shown on the inside cover page hereof. Thereafter, if any Series of Bonds remains in the Long Term Mode, the succeeding Long Term Rate for such Series will be determined by the Remarketing Agent on a Business Day no later than 7 days prior to the effective date of such Long Term Rate Period. Each Long Term Rate Period will end on either the day immediately prior to the maturity date of such Series of Bonds or a day that both immediately precedes a Business Day and is at least 271 days after the effective date thereof.

If the Corporation has not made a timely election prior to the end of any Long Term Rate Period to convert the Bonds of any Series to bear interest at a Daily Rate, a Weekly Rate, a Commercial Paper Rate, another Long Term Rate or an Auction Rate, the next succeeding Interest Rate Period for such Bonds will be a Weekly Rate Period, for which no Liquidity Facility will be provided, until adjusted otherwise.

The Long Term Rate for any future Long Term Rate Periods will be the rate of interest per annum determined by the applicable remarketing agent to be the minimum interest rate that, if borne by the Bonds of the applicable Series, would enable such remarketing agent to sell such Bonds under Prevailing Market Conditions at a price (without regard to accrued interest) equal to the principal amount thereof. Notwithstanding the foregoing, the Long Term Rate will be the rate of interest per annum determined by the applicable remarketing agent to be the interest rate which, if borne by the Bonds of the applicable Series, would enable the applicable remarketing agent to sell such Bonds at a price (without regarding accrued interest) which will result in the lowest net interest cost for the Bonds under Prevailing Market Conditions, after taking into account any premium or discount at which the Bonds are sold by the applicable remarketing agent, provided that the sale of such Bonds at the interest rate and premium or discount specified by the applicable remarketing agent is expected to result in the lowest net interest cost for the Bonds of the applicable Series and certain other requirements specified in the Indenture are met.

During a Long Term Rate Period, the “Interest Payment Date” will be each May 15 and November 15; provided, however, that if any May 15 and November 15 is not a Business Day, then the Interest Payment Date shall be the first Business Day immediately succeeding such May 15 and November 15, as applicable.

### **Conversion to a Different Mode; Mandatory Tender Upon Conversion or Continuation of Long Term Mode**

***Change in Modes.*** Subject to the provisions of the Indenture, the Corporation may, at any time, convert any Series of the Bonds from the Long Term Mode to a different Mode (a “Conversion”) or may continue any Series of Bonds in the Long Term Mode. In order to effect a Conversion, the Corporation is required to provide a written notice (a “Conversion Notice”) to the Authority, the Bond Trustee, and the applicable Remarketing Agent stating the proposed Conversion Date, which shall be (1) a Business Day not earlier than the 20<sup>th</sup> day following receipt by the Bond Trustee of such direction, and (2) in the case of Conversion from a Long Term Rate Period to another Long Term Rate Period, the day immediately following the last day of the then-current Long Term Rate Period. In the event of a continuation of the Long Term Rate Period, the direction of the Corporation shall specify the duration of the Long Term Rate Period, the last day of such Long Term Rate Period and shall specify the date on or prior to which Holders are required to deliver Bonds subject to mandatory tender. If such conversion is to a Daily, Weekly or Commercial Paper Mode, the Conversion Notice must confirm the appointment of a Remarketing Agent and a Tender Agent, each of which meet the requirements set forth in the Indenture.

***Favorable Opinion of Bond Counsel.*** The direction from the Corporation must be accompanied by a letter from Bond Counsel that it expects to deliver, on the Conversion Date or the first day of the new Long Term Rate Period, a Favorable Opinion of Bond Counsel, addressed to the Bond Trustee, to the effect that the action proposed

to be taken is authorized or permitted by the Indenture and will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Such Favorable Opinion of Bond Counsel must be delivered on the Conversion Date.

***Mandatory Tender.*** The Series of the Bonds (1) being converted to another Mode or (2) continuing in the Long Term Mode are subject to mandatory tender and purchase in whole on (a) the Conversion Date or (b) the day after the last day of the current Long Term Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase (the “Purchase Price”). The owner of any Bond subject to mandatory tender may not elect to retain such Bond and is required to tender such Bond on the applicable date of purchase.

***Bondholder Notice and Other Provisions Concerning Conversions and Mandatory Tender on Conversion Date or Day After End of Long Term Rate Period.*** At least 15 days prior to a proposed Conversion Date or first day of new Long Term Rate Period, the Bond Trustee shall give written notice by first class mail, postage prepaid, to the Authority and the Holders of the applicable Series of the Bonds to the effect that the Corporation has chosen to convert such Series of the Bonds from the then-current Mode to a new Mode or that the Corporation has chosen a new Long Term Rate Period for such Series, a copy of which shall be provided to the Authority. Such notice (hereinafter referred to as a “Conversion Notice”) shall state: (i) that the Bonds shall bear interest at the applicable interest rate for the proposed Mode or at the new Long Term Rate unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel to the Trustee on the Conversion Date; (ii) the proposed Conversion Date for such Mode or first day of new Long Term Rate Period; and (iii) that such Bonds are subject to mandatory tender for purchase on such proposed Conversion Date or first day of the new Long Term Rate Period and shall set forth the applicable Purchase Price and the place of delivery for purchase of such Bonds, (iv) that the Purchase Price of any Bond so subject to mandatory tender for purchase shall be payable only upon surrender of such Bond to the Tender Agent at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent, executed in blank by the Holder thereof or by the Holder’s duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (v) that all Bonds so subject to mandatory tender for purchase shall be purchased on the mandatory purchase date which shall be explicitly stated; and (vi) that in the event that any Holder of a Bond so subject to mandatory tender for purchase shall not surrender such Bond to the Tender Agent for purchase on such mandatory purchase date, then such Bond shall be deemed to be an Undelivered Bond, and that no interest shall accrue thereon on and after such mandatory purchase date and that the Holder thereof shall have no rights under the Indenture other than to receive payment of the Purchase Price thereof.

Prior to a Conversion Date, the Corporation may cancel its election to adjust the Interest Rate Mode on the Bonds of any Series on any date prior to the date on which notice of such Conversion has been mailed to the Holders of the applicable Series of Bonds upon notice to the Trustee, the Authority and the Remarketing Agent. In such event, such Bonds shall remain in the current Interest Rate Mode and the interest rate on such Bonds shall continue to be determined as provided in the Indenture; provided, however, that in the event that Bonds are being adjusted from a Long Term Rate Period, then such Bonds shall nevertheless be adjusted to bear interest at a Weekly Rate on the date which would have been the Long Term Conversion Date.

## **Redemption**

***Special Redemption.*** The Bonds of either Series are subject to redemption prior to maturity, at the option of the Authority (which option shall be exercised upon Request of the Corporation, a copy of which Request shall be delivered to the Bond Trustee not less than 20 days prior to the date fixed for such redemption, or such shorter period as agreed to in writing by the Bond Trustee), in whole or in part (and, if in part, in such Series and amounts as may be specified by the Corporation, and by lot among the Bonds of the same Series and in Authorized Denominations), on any date specified by the Corporation, from hazard insurance or condemnation proceeds received with respect to the facilities of the Corporation and deposited in the Special Redemption Account, at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

***Optional Redemption.*** During the initial Long Term Rate Period for the Bonds of each Series, the Bonds are not subject to optional redemption.

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

***Sinking Account Redemption – The Bonds.*** The 2008 Series A-1 Bonds are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus interest accrued to the date of redemption but without premium:

<b>Mandatory Sinking Account Payment Dates (November 15)</b>	<b>Mandatory Sinking Account Payments</b>	<b>Mandatory Sinking Account Payment Dates (November 15)</b>	<b>Mandatory Sinking Account Payments</b>
2011	\$ 600,000	2026	\$ 400,000
2012	275,000	2027	775,000
2013	700,000	2028	425,000
2014	275,000	2029	775,000
2015	675,000	2030	700,000
2016	425,000	2031	550,000
2017	425,000	2032	4,125,000
2018	475,000	2033	4,075,000
2019	225,000	2034	4,475,000
2020	675,000	2035	4,475,000
2021	300,000	2036	4,725,000
2022	675,000	2037	8,800,000
2023	525,000	2038	9,275,000
2024	550,000	2039	9,650,000
2025	550,000	2040†	9,925,000

† Final Maturity.

The 2008 Series A-3 Bonds are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments on November 15 in the years and in the principal amount as set forth below plus interest accrued to the date of redemption but without premium:

Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments	Mandatory Sinking Account Payment Dates (November 15)	Mandatory Sinking Account Payments
2011	\$ 750,000	2026	\$ 500,000
2012	350,000	2027	925,000
2013	825,000	2028	525,000
2014	300,000	2029	925,000
2015	800,000	2030	825,000
2016	525,000	2031	675,000
2017	525,000	2032	5,000,000
2018	550,000	2033	4,975,000
2019	275,000	2034	5,425,000
2020	800,000	2035	5,425,000
2021	375,000	2036	5,750,000
2022	800,000	2037	10,675,000
2023	650,000	2038	11,300,000
2024	675,000	2039	11,725,000
2025	675,000	2040†	12,175,000

† Final Maturity.

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

**Notice of Redemption.** Notice of redemption shall be given by the Bond Trustee by first class mail, postage prepaid, not less than 15 days, nor more than 60 days prior to the redemption date, to the respective holders of any the Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. Each notice of redemption shall be dated, shall state (i) the date of issue of the Bonds, (ii) the redemption date, (iii) the Redemption Price, (iv) the place or places where the Bonds being redeemed shall be surrendered for payment of the Redemption Price (including the name and appropriate address or addresses of the Bond Trustee or any other Paying Agent designated pursuant to the provisions of the Indenture), (v) the Series and maturity date of the Bonds being redeemed, (vi) the CUSIP numbers, if any, and, in the case of the Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice shall also state that on the redemption date there will become due and payable on each of said the Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Bond Trustee specified in the redemption notice.

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

With respect to any notice of optional redemption of the Bonds, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid pursuant to the provisions of the Indenture, such notice shall state

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

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

***Partial Redemption of the Bonds.*** Upon surrender of any Bond redeemed in part only, the Authority shall execute (but need not prepare) and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or the Bonds of Authorized Denominations and of the same Series and maturity, equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

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

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

## SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

### General

The Bonds are limited obligations of the Authority, payable on a pro rata basis with the Other 2008 Bonds 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 all 2008 Bonds, including the Bonds, when such become due. The Authority will assign its right, title, and interest in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any administrative fees and expenses to the extent payable to the Authority, the right of the Authority to be indemnified pursuant thereto and the right to receive certain notices and opinions, to given consents and to make inspections) and Obligation No. 19 to the Bond Trustee. The obligation of the Corporation to make the Loan Repayments with respect to all 2008 Bonds, including the Bonds, will be further evidenced and secured by Obligation No. 19. See “—The Master Indenture” below. No reserve fund is being established in connection with the Bonds.

### The Master Indenture

***Joint and Several Obligations.*** Currently, the Corporation is the sole Member of the Obligated Group. Under the Master Indenture, the Corporation, as Obligated Group Representative, may incur, for itself and on behalf of the other Members of the Obligated Group, Indebtedness, which may be evidenced and secured by Obligations

issued under the Master Indenture. All Members of the Obligated Group are jointly and severally liable with respect to the payment of each Obligation issued under the Master Indenture.

Obligation No. 19 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 on behalf of the 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. 19 in amounts sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds when due. For a discussion of entry into or withdrawal from the Obligated Group, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Obligated Group Membership and Withdrawal.”

***Outstanding Obligations Under the Master Indenture.*** Upon the issuance of Obligation No. 19, the Corporation will have issued and there will be four Obligations outstanding in the current aggregate principal amount of \$829,785,000 securing indebtedness of the Corporation, including indebtedness related to the Conversion Bonds. Obligation No. 5 evidences and secures the obligation of the Corporation with respect to the 1998 B Bonds, of which \$170,775,000 are currently outstanding. Obligation No. 9 and Obligation No. 10 evidence and secure the obligation of the Corporation with respect to the 2003 Bonds, \$237,670,000 of which are currently outstanding. Obligation No. 12 evidences and secures the Corporation’s obligation with respect to the 2006 Bonds, which will be cancelled in connection with the refunding thereof with a portion of the proceeds of the Bonds. Obligations Nos. 13 through 18 evidence and secure the obligations of the Corporation with respect to six interest rate swap agreements under which the Corporation is obligated respectively to make scheduled payments at fixed rates in exchange for payments at floating rates relating to the Conversion Bonds and the 2006 Bonds (which are to be refunded as noted above) and to make payments at fixed rates in exchange for payments at floating rates beginning in November 2008.

In addition, the Corporation has issued three additional Obligations, Obligations Nos. 7, 8 and 11 (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”). The LPCH Obligations evidence and secure the obligations of the Corporation with respect to a liquidity facility, an interest exchange agreement and a financial guaranty insurance policy related to the 1993 LPCH Certificates. 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 relating to Obligation No. 7 and Obligation No. 8 (the “LPCH Reimbursement Agreement”). 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. 19, which evidences and secures the Corporation’s obligations under the Loan Agreement, are secured by security interests in (i) the Gross Revenues of each Member of the Obligated Group and (ii) the moneys and investments on deposit from time to time in the Gross Revenue Fund created under the Master Indenture and held by the Master Trustee. For a description of the limitations on the enforceability of the Master Indenture, see “BONDHOLDERS’ RISKS—Risks Related to Master Indenture Financings, Fraudulent Transfer or Conveyance Statutes” herein.

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

***The Gross Revenue Fund; Security Interest Therein.*** Under the Master Indenture, the Corporation and each of the other Members of the Obligated Group, if any, are required to deposit daily all of the cash proceeds of the Gross Revenues with a depository bank or banks (collectively, a “Depository”). Subject to the provisions of the Master Indenture permitting the moneys in the Gross Revenue Fund to be used as provided therein, the Corporation and each of the other Members of the Obligated Group, if any, grants a security interest in the Gross Revenue Fund to the Master Trustee. With certain exceptions, a security interest in the moneys in the Gross Revenue Fund may be perfected only if the moneys are held by the Master Trustee or its agent. The Corporation, the Master Trustee and

each Depository are required to execute and have executed an account control agreement (an “Account Control Agreement”) to create this agency relationship. See “Master Indenture—Gross Revenue Fund” in Appendix C.

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

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

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

## **Security and Enforceability**

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

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

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

Gross Revenues, in the event of a bankruptcy of the Corporation, Bondholders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity with all other unsecured creditors.

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

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

The state of insolvency, fraudulent transfer or conveyance and bankruptcy laws relating to the enforceability of obligations of one corporation in favor of the creditors of another, or the obligation of one member of an obligated group to make debt service payments on behalf of another member or the ability of a corporate parent to compel its affiliates or subsidiaries to make such payments is unsettled. The ability of the Corporation to compel one Member of the Obligated Group to make payment on behalf of another Member could be subject to challenge if such Member would, by make such payment, be rendered insolvent. In particular, such efforts by the Corporation may not be enforced under the Federal Bankruptcy Code or applicable state fraudulent transfer or conveyance statutes if the obligation to pay is incurred without “fair consideration” or “reasonably equivalent value” to the obligor-Member and if the incurrence of the obligation renders the Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are matters of judicial discretion based upon subjective standards and may vary under the 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. 19 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 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. 19 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. 19.

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

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

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

***Enforceability of Security Interests.*** The security interest in Gross Revenues will be perfected to the extent, and only to the extent, that such security interest may be perfected under the California Commercial Code. The foregoing grant of a security interest may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, and (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds, Medicare and Medi-Cal payments) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund. To the extent that funds of the Obligated Group are not on deposit in the Gross Revenue Fund, the owners of Obligations, including Obligation No. 19, have no security interest in such funds.

***No Liquidity Facility.*** Upon the issuance of the Bonds, no liquidity facility will be delivered which would provide funds to purchase Bonds of either Series that have been tendered for purchase and not remarketed. In the event that remarketing proceeds are not sufficient to purchase such Bonds, the Corporation has agreed in the Loan Agreement to pay to the Tender Agent the amount necessary to purchase such Bonds. A failure to provide such funds will constitute an Event of Default under the Indenture.

As of May 1, 2008, the Corporation's cash and cash equivalents were approximately \$250 million. In addition, the Corporation has an arrangement with Stanford University to access, on a same-day basis, up to \$200 million of the Corporation's investments which are managed for the Corporation by Stanford University. See Appendix B – "Consolidated Financial Statements of the Corporation and Subsidiaries – Footnote 2 – Summary of Significant Accounting Policies—Investments in University Managed Pools."

#### **Limited Liability of the Authority**

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 19 AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

### **THE PLAN OF FINANCE**

#### **General**

The issuance of the Bonds is a component of the Corporation's debt restructuring plan (the "Plan") described in this section. In 2003, the Authority issued the Conversion Bonds in the aggregate principal amount of \$150.0 million, and, in 2006, the Authority issued the 2006 Bonds in the aggregate principal amount of \$428.5 million (together with the Conversion Bonds, the "Auction Rate Bonds") all for the benefit of the Corporation. The Auction Rate Bonds currently bear interest at auction rates and \$578.5 million remain outstanding as of May 1, 2008.

Due to a significant increase in the rate of interest borne by the Auction Rate Bonds, the Corporation has determined to convert the interest rate mode on certain of the Auction Rate Bonds to weekly variable rate demand

bonds and to refund the remainder of the Auction Rate Bonds (the “Refunded Bonds”) with a combination of variable rate demand bonds and intermediate term fixed rate bonds. Upon completion of the Plan, all of the Auction Rate Bonds will have been converted to a different interest rate mode or refunded.

In connection with the initial issuance of each series of the Auction Rate Bonds, the Corporation entered into interest rate swap transactions in which the Corporation exchanges payments based on notional principal amounts in the same amounts as the scheduled outstanding principal amounts of each series of the Auction Rate Bonds at fixed interest rates ranging from 3.37% to 3.73% for payments at floating interest rates based on stated percentages of a short-term interest rate index. The Corporation intends to terminate certain of the interest rate swaps in connection with the Plan and to replace them with interest rate swaps having similar payment terms and identical notional principal amounts. Each remaining interest rate swap will be associated with the series of 2008 Bonds that refunds the corresponding series of Auction Rate Bonds.

### **The Refunding Plan**

The Corporation intends to use the proceeds of the Bonds, together with an equity contribution to (i) refinance draws on a short-term unsecured line of credit, the proceeds of which were used to redeem 2006 Series A-3 Bonds and (ii) to refund the Series 2006 Series A-1 Bonds, in whole.

### **Related Financing**

Concurrently with the issuance of the Bonds, the Corporation anticipates that the Authority will issue the Other 2008 Bonds in the aggregate principal amount of approximately \$272,300,000. The Corporation intends to use the proceeds of the Other 2008 Bonds to redeem the 2006 Series A-2 Bonds, 2006 Series B-1 and 2006 Series B-2 Bonds, in whole. The Corporation intends the 2008 Series A-2 Bonds to be issued as variable rate demand bonds bearing interest initially in the Weekly Mode and to be secured as to payment of principal and Purchase Price of, and accrued interest on, the 2008 Series A-2 Bonds by a direct-pay letter of credit. The Corporation expects to evidence and secure its obligation to reimburse the issuer of the Letter of Credit for draws thereon by the issuance of an Obligation.

### **Other Financings**

The Corporation anticipates converting the interest rates on the Conversion Bonds, which previously were issued for the benefit of the Corporation. From the original issuance date of the Conversion Bonds, such bonds have accrued interest at auction rates. The Corporation anticipates that the Conversion Bonds will be converted to weekly variable rate demand bonds during June 2008. If the conditions to conversion are not satisfied, the Conversion Bonds will continue to accrue interest at auction rates. The Corporation expects to enter into a standby bond purchase agreement to provide security for the payment of the purchase price of any of the Conversion Bonds that are tendered for purchase and not remarketed. The Corporation intends to evidence and secure its obligation to repay amounts owed to the financial institution issuing the agreement by the issuance of an Obligation.

## ESTIMATED SOURCES AND USES OF FUNDS

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

<i>Estimated Sources of Funds</i>	
Par Amount of the Bonds	\$156,200,000
Equity Contribution	706,490
Total	\$156,906,490
 <i>Estimated Uses of Funds</i>	
Redeem 2006 Series A-1 Bonds	\$70,500,000
Line of Credit Repayment	85,700,000
Costs of Issuance <sup>(1)</sup>	706,490
Total	\$156,906,490

<sup>(1)</sup> Costs of Issuance includes Underwriters' compensation, legal, printing, rating, trustee and Authority fees, accounting fees and other costs of issuance and will be paid from an equity contribution made by the Corporation.

## CONTINUING DISCLOSURE

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

The Corporation, on behalf of the Obligated Group, has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide to Wells Fargo Bank, National Association, as dissemination agent, for dissemination (i) certain financial information and operating data relating to the Obligated Group by not later than 150 days following the end of the Corporation's fiscal year (which currently is August 31) (the "Annual Report"), commencing with the report for the 2008 Fiscal Year (due January 28, 2009), and (ii) notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the dissemination agent on behalf of the Corporation with each Nationally Recognized Municipal Securities Information Repository and with a repository designated by the State of California as the state depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission (the "State Repository"). As of the date of this Official Statement, there is no State Repository. The notices of material events will be filed by the dissemination agent on behalf of the Corporation with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. See APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with the Rule. The Corporation has never failed within the previous five years to comply in all material respects with any previous undertaking with regard to the Rule to provide financial information and data, operating data or notices of material events.

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

## **DEBT SERVICE REQUIREMENTS**

The following table sets forth, for each year ending November 15, the amounts required to be paid by the Corporation for payment of the principal, whether by payment at maturity or upon mandatory sinking account redemption, and interest on the Bonds. The following table also includes the debt service on the Other 2008 Bonds and on all bonds previously issued for the benefit of the Corporation that will be outstanding after the issuance of the Bonds.

Year Ending November 15	The Bonds		Total Debt Service on the Bonds	Total Debt Service on the Other 2008 Bonds <sup>(1)</sup>	Total Debt Service on Outstanding Bonds <sup>(1)</sup>	Total Debt Service
	Principal	Interest <sup>(1)</sup>				
2008	–	\$2,626,966	\$2,626,966	\$4,425,451	\$22,631,447	\$29,683,864
2009	–	5,801,889	5,801,889	9,962,990	26,003,538	41,768,417
2010	–	5,801,889	5,801,889	9,970,849	26,011,082	41,783,820
2011	\$1,350,000	5,801,889	7,151,889	11,062,596	25,609,598	43,824,083
2012	625,000	5,751,741	6,376,741	10,343,120	25,997,211	42,717,072
2013	1,525,000	5,728,523	7,253,523	10,939,030	25,509,478	43,702,031
2014	575,000	5,671,883	6,246,883	10,283,550	26,005,160	42,535,593
2015	1,475,000	5,650,532	7,125,532	10,869,011	25,512,910	43,507,452
2016	950,000	5,595,748	6,545,748	10,625,716	26,094,387	43,265,851
2017	950,000	5,560,460	6,510,460	11,037,958	25,508,228	43,056,646
2018	1,025,000	5,525,171	6,550,171	11,097,990	26,009,440	43,657,601
2019	500,000	5,487,104	5,987,104	10,696,894	26,009,570	42,693,567
2020	1,475,000	5,468,531	6,943,531	11,340,068	25,507,516	43,791,115
2021	675,000	5,413,748	6,088,748	10,764,621	26,006,428	42,859,796
2022	1,475,000	5,388,674	6,863,674	11,503,920	25,610,193	43,977,787
2023	1,175,000	5,333,890	6,508,890	11,043,594	25,995,893	43,548,377
2024	1,225,000	5,290,244	6,515,244	11,020,009	25,517,700	43,052,952
2025	1,225,000	5,244,741	6,469,741	11,002,177	26,038,544	43,510,462
2026	900,000	5,199,239	6,099,239	10,780,429	26,034,974	42,914,642
2027	1,700,000	5,165,807	6,865,807	11,308,498	25,711,002	43,885,306
2028	950,000	5,102,665	6,052,665	10,914,379	26,140,718	43,107,761
2029	1,700,000	5,067,377	6,767,377	11,234,012	25,838,567	43,839,955
2030	1,525,000	5,004,235	6,529,235	11,074,245	26,089,512	43,692,992
2031	1,225,000	4,947,595	6,172,595	10,811,109	25,916,929	42,900,633
2032	9,125,000	4,902,092	14,027,092	16,065,336	14,027,601	44,120,029
2033	9,050,000	4,563,156	13,613,156	15,958,869	14,161,344	43,733,369
2034	9,900,000	4,226,999	14,126,999	16,130,417	14,018,202	44,275,619
2035	9,900,000	3,859,277	13,759,277	15,885,455	14,097,070	43,741,801
2036	10,475,000	3,491,554	13,966,554	16,023,752	14,159,751	44,150,056
2037	19,475,000	3,102,470	22,577,470	21,777,672	–	44,355,141
2038	20,575,000	2,379,095	22,954,095	22,002,518	–	44,956,613
2039	21,375,000	1,614,853	22,989,853	22,183,927	–	45,173,779
2040	22,100,000	820,901	22,920,901	21,867,757	–	44,788,658
2041	–	–	–	37,764,487	–	37,764,487
2042	–	–	–	37,585,041	–	37,585,041
2043	–	–	–	37,858,926	–	37,858,926
2044	–	–	–	37,847,261	–	37,847,261
2045	–	–	–	37,906,854	–	37,906,854
2046	–	–	–	–	–	–
2047	–	–	–	–	–	–
2048	–	–	–	–	–	–

<sup>(1)</sup> Assumes that interest on each series of the 2008 Bonds and the Conversion Bonds is payable at the rate determined in accordance with the related interest swap transaction for such series of 2008 Bonds or Conversion Bonds, as the case may be. The interest rate swap transaction for the 2008 B-1 Bonds and the 2008 B-2 Bonds terminates in 2016. For subsequent periods until maturity, assumes that interest on the 2008 B-1 Bonds and the 2008 B-2 Bonds is payable at 4.0% per annum.

## BONDHOLDERS' RISKS

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

### General

Except as noted under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the 2008 Bonds, including the Bonds, are payable on an equal and pro rata basis from Loan Repayments made pursuant to the Loan Agreement and funds provided under Obligation No. 19 and the Indenture. The Obligated Group's obligation to make the Loan Repayments with respect to the 2008 Bonds will be further evidenced and secured by Obligation No. 19 issued under the Master Indenture. All Obligations issued and Outstanding under the Master Indenture are secured by the security interests in the Gross Revenues and Gross Revenue Fund. **No representation or assurance can be made that revenues will be realized by the Obligated Group in amounts sufficient to make the Loan Repayments and hence the debt service on the Bonds.**

The Obligated Group is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and are subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), the Attorney General of the State of California, and other federal, state and local government agencies. The future financial condition of the Obligated Group could be adversely affected by, among other things, changes in the method and amount of payments to the Obligated Group by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., a "single-payor" system), future changes in the economy, demographic changes, availability of physicians, nurses and other healthcare professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation and any future Member of the Obligated Group under the Loan Agreement and Obligation No. 19 and, consequently, on the Bonds. In addition, the tax exempt status of the Corporation and any future Obligated Group Member and, therefore, of the Bonds, could be adversely affected by, among other things, an adverse determination by a governmental entity, non-compliance with governmental regulations or legislative changes.

### Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of the Obligated Group are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial conditions and results of operations of the Corporation or any future Member of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Loan Agreement and Obligation No. 19.

**Reliance on Medicare.** Inpatient hospitals rely to a high degree on payment from the federal Medicare program. Future changes in the underlying law and regulations, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals' payment streams from Medicare. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare outlays for hospitals. The current federal budget submitted by the Bush Administration proposes further reduction in Medicare spending growth.

**Rate Pressure from Insurers and Purchasers.** Certain health care markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over the rates, utilization and competition of hospitals and other health care providers. Rate pressure imposed by health insurers or other major purchasers,

including managed care payers, may have a material adverse impact on health care providers, particularly if major purchasers put increasing pressure on payers to restrain rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals and other health care providers in the form of payment shortfalls or delay, and/or continuing obligations to care for managed care patients without receiving payment. In addition, disputes with non-contracted payers are increasing and may result in an inability to collect billed charges from these payers.

***Nonprofit Health Care Environment.*** Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements that apply to nonprofit tax-exempt organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, and exemption of property from real property taxation. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a material adverse effect on the Corporation.

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

***Construction Risks.*** Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and labor, and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor and other factors. Cost overruns could cause the costs to exceed available funds. Construction costs are inflating in California between 15% and 20% annually making some projects financially prohibitive. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—Additional Facility Needs.”

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

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

***Violations and Sanctions.*** The government and/or private “whistleblowers” often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal and monetary penalties, including withholding essential hospital and other health care provider payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital and other health care provider operations, financial condition, results of

operations and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital and health care sector. Most large hospital and other health care provider systems are likely to be adversely impacted.

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

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

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

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

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

***Labor Costs and Disruption.*** The delivery of health care services is labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital and health care provider operations and financial condition. Hospital and health care employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Employees."

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

***General Economic Conditions; Bad Debt and Indigent Care.*** Hospitals and health care providers are economically influenced by the environment in which they are located. To the extent that state, county or city

governments are unable to provide a safety net of medical services, pressure is applied to local hospital and providers to increase free care. Economic downturns and lower funding of state Medicaid programs may increase the number of patients treated by hospitals and providers who are uninsured, underinsured or otherwise unable to pay for some or all of their care. These conditions may give rise to increased bad debt and higher indigent care utilization. At the same time, no operating revenue from investments may be reduced or eliminated. These factors may have a material adverse impact on hospitals and health care providers.

***Health Care Reform.*** Federal and state legislators have proposed various health care reform plans that, if enacted, would make significant changes in the way health care services are delivered and reimbursed. It is anticipated that more health care reform proposals will be forthcoming. Some proposals are sweeping and would require conforming and complex changes to both federal and state laws addressing perhaps all aspects of hospital and provider operations, health care delivery and reimbursement. These changes could result in lower hospital and provider reimbursement, utilization changes, increased government enforcement and other impacts.

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

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

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

## **Nonprofit Health Care Environment**

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

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

***Congressional Hearings.*** Since 2004, three Congressional Committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health care providers. The House Committee on Energy and Commerce (the "House Committee") launched a nationwide investigation of hospital billing

practices and prices charged to uninsured patients. Twenty large hospital and health care systems, not including the Corporation, were requested by the House Committee to provide detailed historical charge and billing information for acute care services.

The Senate Finance Committee (the “Senate Committee”) also conducted hearings on required reforms to the nonprofit sector in and released a staff discussion draft on proposals for reform in the area of tax-exempt organizations, including a proposal for a five-year review of tax-exempt status by the IRS. The Senate Committee has also requested information from a number of nonprofit hospitals and hospital systems regarding their charitable activities, patient billing and ventures with for-profit corporations and hospitals. Such hearings have continued in 2008.

The House Committee on Ways and Means held hearings to examine the tax-exempt sector, hospital tax-exemptions and the use of tax-preferred bond financings.

It is uncertain that any of these Committees will pursue further investigations or will recommend legislative changes as a result of these inquiries.

***IRS Review of Nonprofit Hospitals.*** In July 2007, the IRS released a report summarizing responses from almost 500 tax-exempt hospitals to a May 2006 questionnaire about how they provide and report benefits to the community. The report determined that a lack of uniformity in definitions and reporting, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether a hospital is in compliance with current law. One recommendation in the interim report was the creation of a new schedule for the IRS Form 990 (Return of Organization Exempt from Income Tax) on which hospitals will report community benefit activity. As a result of the increased scrutiny of community benefit activity by the IRS resulting, in part, from the new reporting requirement, tax-exempt hospitals may be required to increase the resources spent on qualifying activities.

***California Attorney General.*** California nonprofit corporations, including the Corporation, are subject at all times to examination by the California Attorney General (the “AG”) to ensure that the purposes of the nonprofit corporations are being carried out.

***Financial Assistance and Charity Care.*** Effective January 1, 2007, California Health and Safety Code section 127400 et seq. (“Section 127400”), requires hospitals to maintain written policies about discount payment and charity care and provide copies of such policies to patients and the Office of Statewide Health Planning and Development (“OSHDP”). California hospitals are also required to follow specific billing and collection procedures. The Corporation has had policies providing for financial assistance and charity care and discounts to uninsured patients in effect for several years, and has updated its policies to conform to Section 127400. Management does not believe that compliance with Section 127400 will have a material effect on the financial condition of the Obligated Group.

***Indigent Care.*** Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner-city hospitals and health care providers may treat significant numbers of indigents. These hospitals and health care providers may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for 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, county, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

***Class Actions.*** Hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, and they may be used for a variety of currently unanticipated

causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future.

***Action by Purchasers of Hospital Services and Consumers.*** Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

***Challenges to Real Property Tax Exemptions.*** Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 19.

## **Healthcare Reform Initiatives**

Healthcare reform has been identified as a priority by business leaders, public advocates, political leaders and candidates for office at the federal, state and local levels. Proposals include: (1) establishing universal healthcare coverage or purchasing pools; (2) modifying how hospitals, physicians and other healthcare providers are paid; and (3) evaluating hospitals, physicians and other healthcare providers on a variety of quality and efficacy standards to support pay-for-performance systems. Although California's recent universal healthcare coverage proposal failed to pass the legislature, similar reform efforts may be proposed again in the future by legislation or voter initiatives.

Other developments affecting hospitals and providers as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on the Corporation or any future Member of the Obligated Group and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 19.

## **Patient Service Revenues**

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

In 2005, CMS announced a new demonstration project using recovery audit contractors (“RACs”) as part of CMS’ further efforts to assure accurate payments. The project uses the RACs to search for potentially improper Medicare payments that may have been made to healthcare providers in prior years and that were not detected through existing CMS program integrity efforts. The RACs use their own software and their knowledge of Medicare to determine what areas to review. Once a RAC identifies a potentially improper claim as a result of an audit, it makes an assessment from the provider’s Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. The project is currently operating in five states (including California), with a nationwide rollout in phases beginning in March 2008. Such audits may have the effect of slowing future Medicare payments to providers pending an evolving appeals process with the RACs.

“Never events” are to be identified by CMS in its final rule on the hospital inpatient prospective payment system for fiscal 2008; such events will include specific preventable adverse events (such as performing surgery on the wrong body part). Beginning in October 2008, CMS will not reimburse hospitals for medical costs arising from “never events” and it is anticipated that HMOs and other private insurers are likely to follow suit. The occurrence of “never events” may be more likely to be publicized and may negatively impact a hospital’s reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

As the U.S. population ages, more people will become eligible for the Medicare program. Current projections indicate that, without some modification of the Medicare program, demographic change may exert significant and negative forces on the overall federal budget. While the Medicare program has been modified significantly in the past, there are no current proposals likely to be adopted to address this budgeting issue. Management cannot project whether or to what extent the Medicare program may be modified in the future, or what impact such modification may have on the financial operations of the Obligated Group.

For information concerning the Medicare payments received by the Corporation or any future Member of the Obligated Group for the fiscal years ended August 31, 2005, 2006 and 2007, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues.”

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

In its Prospective Payment Final Rule for 2008 (the “2008 IPPS Rule”), CMS established a new DRG clarification system, the Medicare Severity DRGs (MS DRGs). The new system replaces the prior 526 DRGs with 745 MS DRGs, and there can be no assurance that the changes in the classifications of patient hospitalizations at any of the Corporation’s or any future Member’s facilities will not result in fluctuations or declines in revenue. The MS DRG coding system was made partially effective as of October 1, 2007 and will be fully phased in over a two year period. Also enacted in the 2008 IPPS Rule were provisions preventing hospitals from claiming assignment of patient cases to DRGs with higher payments if the secondary diagnosis warranting higher payment is one of several specified health conditions or complications and was not present upon the patient’s admission but rather acquired in the hospital. CMS has announced its intent to identify in future inpatient prospective payment rules, additional conditions for which higher payment will be unavailable. There can be no assurance that these future payment limitations will not adversely affect the revenue of the Corporation or any future member of the Obligated Group.

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

***Other Medicare Service Payments.*** Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory

formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

***Reimbursement of Hospital Capital Costs.*** Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Corporation's or any future Member's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

***Medical Education Payments.*** The Corporation, as the operator of a teaching hospital, has historically received direct and indirect medical education reimbursement through the Medicare program. In recent years, the direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit. For example, the Balanced Budget Act of 1997 capped the number of residents recognized by Medicare for reimbursement purposes at the number of residents working in a hospital for the hospital's most recent cost report period ended on or before December 31, 1996, and contained other provisions that limit reimbursement for both direct and indirect medical education costs. Reductions in the level of reimbursement for direct and indirect medical education costs could have a material and adverse effect on the financial condition of the Corporation.

***Medical Education Payments.*** Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination.

***Medicaid Program.*** Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid spending. The Bush administration proposed a \$25.7 billion cut in Medicaid spending over the next five years. This reduction in federal funding, and any reduction in state funding, will likely negatively impact provider reimbursement under the various programs.

***California Medi-Cal.*** Medi-Cal is the California Medicaid program. The State of California selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients. The State is obligated to make contractual payments only to the extent the legislature appropriates adequate funding. Except in areas of the State that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days' notice and the State may terminate without notice under certain circumstances. No assurances can be made that hospitals will be awarded Medi-Cal contracts or that any such contracts will reimburse hospitals for the cost of delivering services. The 2008 2009 California State Budget includes a 10% reduction in payments to health care providers under Medi-Cal. See "California State Budget," below.

For information concerning the Medi-Cal payments received by the Obligated Group, for the fiscal years ended August 31, 2005, 2006 and 2007, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues."

***California State Budget.*** Many states, including California, face severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slower economic growth and higher unemployment, which may continue or worsen over the coming years. Shortfalls between state revenues and spending demands have in the past and may in the future result in cutbacks to government health care programs. California's budget proposal for the 2008-2009 fiscal year, submitted by the state's governor and agreed to in principle by the legislature, includes a 10% reduction in payments to health care providers under Medi-Cal, the state's Medicaid program. The governor of California has also proposed increasing the frequency with which Medi-Cal beneficiaries must verify their eligibility in order to achieve savings by reducing the number of enrollees in the Medi-Cal program. Such changes to reimbursement rates and program enrollment might negatively affect the Corporation or any future Member of the Obligated Group in a number of ways, including, but not limited to, reduced revenue and an increase in uninsured and underinsured patients.

The financial challenges facing states may negatively affect hospitals in a number of ways, including, but not limited to, a greater number of indigent, uninsured or underinsured patients who are unable to pay for their care or access to primary care facilities and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates.

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

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

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

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

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

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

For information concerning the managed care payments received by the Obligated Group for the fiscal years ended August 31, 2005, 2006 and 2007, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenues.”

***California Health Care Proposal.*** California Governor Schwarzenegger proposed a plan to enact health insurance coverage in California, later contained in ABX1 1, which failed in the Senate in January 28, 2008. Other health care proposals, including universal health care coverage in various forms, have been proposed. It is anticipated that health care reform will continue to be a leading issue in the near future. Legislation or regulation concerning health care reform could have a material adverse effect on the Corporation or any future Member of the Obligated Group and its operations.

***Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures.*** Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health

services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. Published rankings such as “score cards,” “pay for performance” and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospital, the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the Members. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance are set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

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

## **Regulatory Environment**

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

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital from participation in the Medicare/Medicaid programs, civil monetary penalties, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation.

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

***False Claims Act.*** The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements.

The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government’s primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital.

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

Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to \$250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program), or an “assessment” of three times the amount claimed may be imposed.

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

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

Medicare may deny payment for all services related to a prohibited referral and a hospital that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, the hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medicaid programs. Although Stark does not have an extensive enforcement history, potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital.

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

Violation of the antitrust laws could result in criminal and/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.

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

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

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

**Exclusions from Medicare or Medicaid Participation.** The government may exclude a hospital from Medicare/Medicaid program participation that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital would be decertified and no program payments can be made. Any hospital exclusion could be a materially adverse event. In addition, exclusion of hospital employees may be another source of potential liability for hospitals or health systems.

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

**Compliance with Conditions of Participation.** CMS, in its role of monitoring participating providers’ compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

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

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

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

Health facilities may be subject to requirements related to investigating and remediating hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/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.

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

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

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

## **Business Relationships and Other Business Matters**

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

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

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

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

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

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

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

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

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

**Labor Relations and Collective Bargaining.** Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to

hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Certain employees of the Corporation are currently covered by collective bargaining agreements. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Employees.”

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

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

***Staffing.*** In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. In addition, aging medical staffs and difficulties in recruiting physicians are leading to physician shortages. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for physicians and employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly. This trend could have a material adverse impact on hospitals.

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

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

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

## **Tax-Exempt Status and Other Tax Matters**

***Maintenance of the Tax-Exempt Status of the Corporation and any future Members of the Obligated Group.*** The tax-exempt status of the Bonds presently depends upon maintenance by each Obligated Group Member, consisting currently only of the Corporation, that receives or benefits from the proceeds of the Bonds (the “Benefiting Member”) of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not

conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

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

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

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

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

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain “excess benefit transactions” involving 501(c)(3) organizations and “disqualified persons.” An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any “organization manager” who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on an Obligated Group Member or the tax status of the Bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these “intermediate sanctions” rules.

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

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

audit could lead to a challenge that could adversely affect the real property tax exemptions of the Corporation or any future Obligated Group Member.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of the Obligated Group by requiring payment of income, local property or other taxes.

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

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

The IRS has also added a new Schedule H to IRS Form 990—Return of Organizations Exempt From Income Tax, on which hospitals and health systems will be asked to report how they provide community benefit and specify certain billing and collection practices. The new schedule also requests detailed information related to all outstanding bond issues of nonprofit borrowers, including information regarding operating, management and research contracts as well as private use compliance.

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

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

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

status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Bonds.

### **Other Risk Factors**

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

California law requires each acute care hospital in the State either to comply with new hospital seismic safety standards or to cease acute care operations by January 1, 2008. California law allows three types of extensions to the January 1, 2008 deadline.

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

The second type of extension allows the 2013 deadline to be extended for up to two years to January 1, 2015, in limited cases. To qualify for the extension, such hospital must have (i) begun construction when the extension is requested; (ii) submitted construction plans to OSHPD before January 1, 2009; (iii) obtained a building permit for construction by January 1, 2011; (iv) submitted to state officials a timetable for construction; and (v) made reasonable progress in meeting this timetable. The Corporation has developed a master plan to replace the hospital facilities in order to comply with these requirements and to modernize and consolidate facilities. Its ability to meet the milestones for compliance with seismic safety standards depends in part on timely receipt of approvals from the City of Palo Alto and other agencies which have not yet been obtained. Although management of the Corporation believes such approvals will be obtained, there can be no assurances that they will be obtained on a timely basis.

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

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

In addition, approximately \$422 million of variable rate bonds, issued on behalf of the Corporation, have a “put” feature which grants the holders of such bonds the right to tender these bonds for payment on seven, or fewer, days’ notice. Approximately \$104 million of such bonds are secured by a letter of credit issued by a commercial bank and approximately \$150 million of such bonds are secured by a stand-by bond purchase agreement between the Corporation and a different commercial bank, each of which provides that the applicable bank will advance funds to purchase bonds that are not remarketed. Approximately \$168 million of such bonds are not supported by a credit facility or a liquidity facility. If any variable rate bonds are tendered for purchase and not remarketed and, in the case of the bonds secured by either a letter of credit or stand-by bond purchase agreement, the bank fails to advance

funds to purchase the bonds, the Corporation will be obligated to purchase such bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Security and Enforceability—No Liquidity Facility” herein.

The Corporation may enter into interest rate swap agreements related to indebtedness of the Obligated Group (the “Swaps”). The Swaps are and will be subject to periodic “mark-to-market” valuations and at any time may have a negative value to the Corporation. The Swaps counterparty may terminate the Swaps upon the occurrence of certain “termination events” or “events of default.” The Corporation may terminate the Swaps at any time. If either the counterparty to the Swaps or the Corporation terminates any of the Swaps during a negative value situation, the Corporation may be required to make a termination payment to such Swaps counterparty, and such payment could be material.

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

The Swaps may be secured under the Master Indenture. The Corporation or any future Member of the Obligated Group may in the future enter into other financial product and hedge devices that also may be secured under the Master Indenture.

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

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

- (a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.
- (b) Reduced demand for the services of the Corporation or any future Member of the Obligated Group that might result from decreases in population or loss of market share to competitors.
- (c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- (d) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- (e) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry.
- (f) The occurrence of a natural or man-made disaster, a pandemic or an epidemic that could damage the Obligated Group’s facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Obligated Group’s operations and the generation of revenues from the facilities.
- (g) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D hereto.

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

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

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

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

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Bonds for

federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

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

### **APPROVAL OF LEGALITY**

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

### **LITIGATION**

#### **The Corporation**

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of the officers of the Corporation, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Corporation taken concerning the issuance or sale thereof or the execution and delivery of Obligation No. 19, or the pledge or application of any moneys or security provided for the payment of the Bonds.

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

#### **The Authority**

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

### **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings, assigned municipal bond ratings of "A1," "A" and "AA-" for the Bonds. Moody's and Fitch have assigned short-term ratings of "VMIG1" and "F1+" for the Bonds. The

ratings reflect the current assessment of each rating agency of the creditworthiness of the Corporation. Such ratings reflect only the view of each organization and any explanation of the significance of such rating may only be obtained from the rating agency furnishing the same. The Corporation has furnished to such rating agencies certain information and materials concerning the Bonds and itself. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that any of the ratings mentioned above will remain in effect for any given period of time or that the ratings might not be lowered or withdrawn entirely by the rating agency assigning any such rating, if in its judgment circumstances so warrant. As provided in the Continuing Disclosure Agreement and described above under "CONTINUING DISCLOSURE," only the Corporation has undertaken any responsibility to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of any of the ratings or to oppose any proposed revision or withdrawal thereof. Any downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

### **INDEPENDENT ACCOUNTANTS**

The financial statements as of August 31, 2007 and 2006 and for each of the two years then ended, included in this offering circular, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

No audited or unaudited financial statements for any period prior to the fiscal year ended August 31, 2006 have been included in this Official Statement. For management's discussion regarding pre-fiscal year 2006 financial statements, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—Summary of Financial Information—Management's Discussion and Analysis."

### **UNDERWRITING**

Pursuant to a Purchase Contract for the Bonds, Morgan Stanley & Co. Incorporated, as the Representative of the Underwriters, has agreed to purchase the Bonds at a purchase price of \$156,200,000 (consisting of the aggregate par amount of the Bonds). The Corporation has agreed to pay the Underwriters underwriting compensation of \$606,983 with respect to the Bonds. The Purchase Contract for the respective series of Bonds provides that the respective Underwriter will purchase all of the related Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriters and the Authority against certain liabilities.

### **RELATIONSHIPS AMONG THE PARTIES**

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

### **MISCELLANEOUS**

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Indenture, the Loan Agreement, the Master Indenture, Supplement No. 19 and the Continuing Disclosure Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of such documents may be obtained during the offering period upon request directed to the Corporation and thereafter upon request directed to the principal corporate trust office of the Bond Trustee.

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

CALIFORNIA HEALTH FACILITIES FINANCING  
AUTHORITY

By: /s/ Barbara J. Liebert  
Executive Director

APPROVED:

STANFORD HOSPITAL AND CLINICS, a  
California nonprofit public benefit corporation

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

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**APPENDIX A**

**INFORMATION CONCERNING  
STANFORD HOSPITAL AND CLINICS**

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## BACKGROUND AND ORGANIZATION

### Introduction

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

The principal clinical facilities of the Corporation are the Stanford Hospital, a 613-licensed bed tertiary, quaternary and specialty hospital (the “Hospital”), and the primary, specialty and sub-specialty clinics (the “Clinics” and, together with the Hospital, the “Hospital and Clinics”) in which the medical faculty of the School of Medicine provide clinical services. The Hospital and a majority of the Clinics are located on the campus of Stanford University adjacent to the School of Medicine in Palo Alto, California. Other Clinics are located elsewhere on the campus, nearby off-campus and in neighboring communities. During the fiscal year ended August 31, 2007, the Corporation treated more than 44,000 patients in its emergency room, admitted more than 23,000 inpatients and recorded more than 270,000 outpatient transactions. From these patient care activities, the Corporation reported total revenues of \$1.6 billion and an excess of revenue over expenses of \$224 million for the fiscal year ended August 31, 2007. At August 31, 2007, the Corporation’s total assets were approximately \$2.1 billion, total liabilities were approximately \$1.2 billion and net assets were approximately \$900 million.

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

Capitalized terms used and not otherwise defined in this Appendix A have the meanings set forth in the 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 Section 501(c) (3) of the Internal Revenue Code of 1986, as amended (the “Code”) and is not a private foundation as defined in Section 509(a) of the Code.

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

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

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

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

***Stanford University Medical Indemnity and Trust Insurance Company ("SUMIT")***. SUMIT, a nonprofit corporation organized and licensed under the State of Hawaii's Captive Insurance Law and a tax-exempt organization, provides liability coverage to the Corporation and LPCH for medical professional, hospital, general and employment practices liability. See "PROFESSIONAL LIABILITY AND OTHER INSURANCE" herein for additional information. The governing body of SUMIT consists of eight voting directors, three of whom are appointed by the Corporation, two by LPCH and the remainder by the appointees of the Corporation and LPCH. The Corporation and LPCH are SUMIT's only members. Prior to September 2005, SUMIT was named SHC/LPCH Insurance Company.

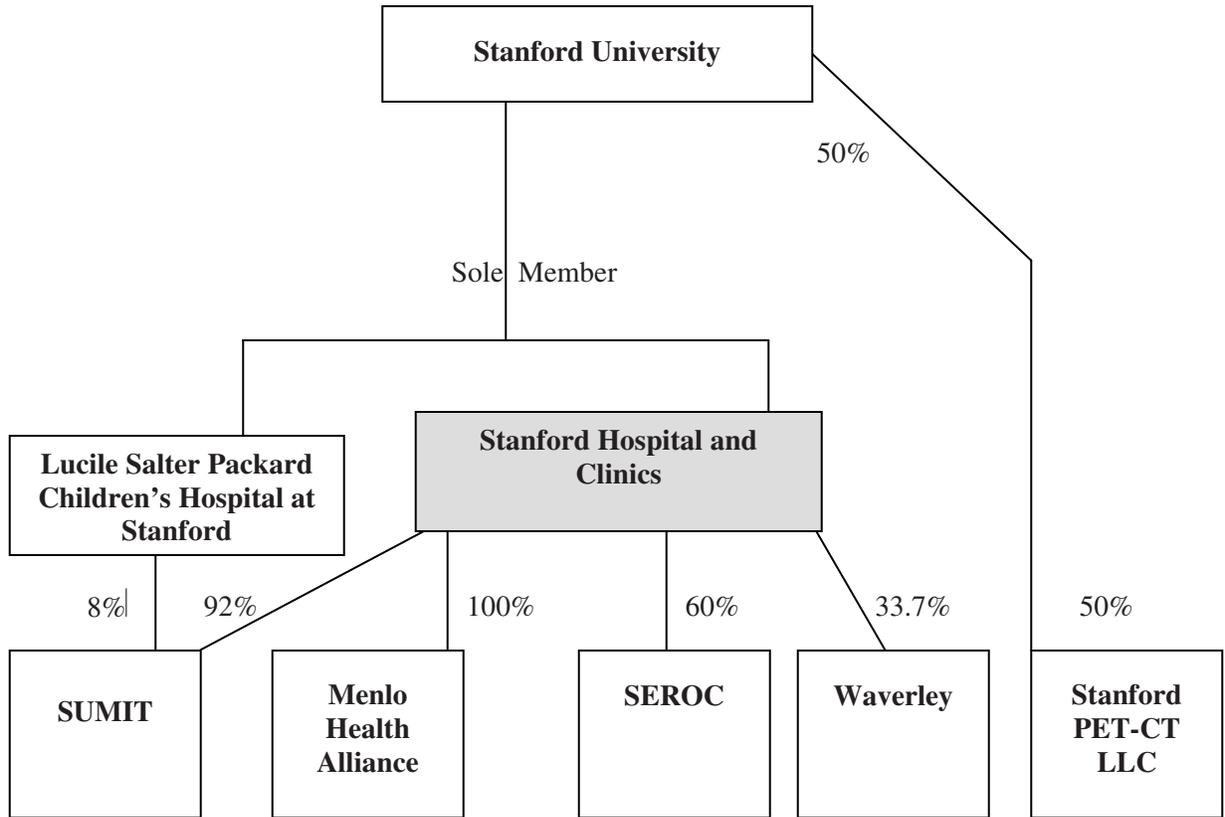
***Waverley Surgery Center, L.P. ("Waverley")***. Waverley, a California limited partnership, operates an ambulatory surgical center in Palo Alto, providing outpatient surgical and related health care services. As of August 31, 2007, the Corporation held 33.7% of the limited partnership units in Waverley. 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, LLC ("MHA")***. MHA, a California wholly owned limited liability company, operates a multi-specialty medical clinic under the name "Menlo Medical Clinic." At Menlo Medical Clinic, physicians with academic appointments on the faculty of the School of Medicine provide care to patients, and medical students, interns, residents and fellows of the School of Medicine receive training. The Corporation is the sole member of MHA.

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

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

The current relationship by and among the entities mentioned above with respect to voting interests is depicted in the following chart:



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

## **History of the Corporation 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 Stanford University moved its School of Medicine from San Francisco to its present location on the Palo Alto campus. Until 1994, the Clinics in which the School of Medicine faculty members conducted their medical practices were operated by Stanford University, and the Corporation assumed operation of the Clinics in 1994. In 1997, the Corporation and LPCH began to formalize their relationship, with the Corporation becoming the sole member of LPCH.

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

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

***2000 to 2002.*** 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, implemented consecutive years of “turn-around” budgets, assembled a new senior management team and corrected deficiencies in financial reporting and controls. On September 1, 2002, the Corporation transferred its interest and related net assets as sole corporate member of LPCH to Stanford University. As part of their ongoing operations, the Corporation and LPCH engage in certain related transactions.

***2003 to 2004.*** The Corporation developed joint strategic initiatives with the School of Medicine. The Corporation continued to focus on growth in strategic clinical services and the provision of high quality of care to patients.

The Corporation opened a state-of-the-art, 165,000 square foot Cancer Center in March 2004. The Cancer Center consolidated all outpatient cancer medical services into one facility making treatment more convenient for patients and giving physicians greater opportunities to coordinate optimal patient care.

***2005 to Present.*** Effective September 1, 2004, the Corporation entered into a seven year agreement with a third party pursuant to which the vendor will provide information technology services to the hospital.

In fiscal year 2005, the Corporation purchased property and facilities located in Redwood City in order to construct the Stanford Medical Outpatient Center. The facilities will be renovated to make it suitable for short-stay procedures and other clinical services, with an orthopedic center being a core component of the facility. Other services may be relocated from the Hospital to this site, such as a surgery center, imaging center, sleep center and other strategic services.

Effective March 13, 2006, the Corporation entered into a seven-year agreement with a third party to upgrade the Hospital's clinical information system with the first phase of the implementation scheduled for 2008.

During fiscal year 2007, SEROC was formed. SEROC is a joint venture between the Corporation and Emanuel Medical Center ("EMC") which operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. SHC's interest in SEROC is 60%.

The Corporation will be opening an Outpatient Imaging Center in Palo Alto, California, which will offer CT and MRI services.

## Governance

**Board of Directors.** Pursuant to the bylaws of the Corporation, the Board of Directors (the "Board") is comprised of six *ex-officio* directors and not less than seven or more than twenty directors elected by Stanford University. Currently, the Board consists of five *ex-officio* directors and seventeen 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 in July 2001, at which time all previously appointed directors were re-elected. Elected directors may serve up to three consecutive three-year terms. At least one year must then elapse before such a director may be elected for an additional term. The current elected and *ex-officio* directors, the year of each director's commencement of service on the Board and the year of expiration of each director's current term are as follows:

Name	Service Commenced	Year of Expiration of Current Term	Occupation
Marc Andreessen	2006	2009	Technology entrepreneur
Peter Bing, M.D.	2000	2008	Self-employed
Susan Bostrom	2004	2010	Senior executive for a large public corporation
Mariann Byerwalter, Chair	2000	2009	Chairman of an advisory group
Bruce Cozadd	2004	2010	Founder and board chair of a publicly traded pharmaceutical company
Christopher Dawes, <i>ex-officio</i> *	2000	N/A	President and CEO of Lucile Salter Packard Children's Hospital
John Freidenrich	2000	2009	Founder of a venture capital firm
Richard Hoppe, M.D.	2000	2008	Chair, Department of Radiation Oncology Stanford University School of Medicine
John Lillie, <i>ex-officio</i>	2007	N/A	Chair, Lucile Salter Packard Children's Hospital Board of Directors
Victor MacFarlane	2003	2009	Founder and managing partner of a real estate investment management firm
Martha Marsh, <i>ex-officio</i>	2002	N/A	President and CEO of the Corporation

Name	Service Commenced	Year of Expiration of Current Term	Occupation
Albert Martin, M.D.	2001	2009	Health care consultant
John Morgridge	2008	2010	Chairman of the board of a large publicly traded corporation
Woodrow A. Myers, M.D.	2005	2008	Health care consultant
Denise O’Leary	2000	2008	Private investor
Philip Pizzo, M.D., <i>ex-officio</i>	2001	N/A	Dean, Stanford University School of Medicine
Kathryn Renschler, M.D.	2007	2008	Community physician
Norman Rizk, M.D., <i>ex-officio</i>	2001	N/A	Senior Associate Dean for Clinical Affairs, Stanford University School of Medicine
John Scully, <i>Vice Chair</i>	2000	2010	Founder, managing director of a private investment company
Peter Stamos	2002	2010	Founder, chairman and CEO of a private investment firm
William Younger	2007	2009	Managing director of a venture capital firm
Steve Young	2003	2009	Founder of a nonprofit corporation

\* Non-voting.

**Board Committees.** The bylaws of the Corporation provide for an Audit and Compliance Committee (auditor control, supervision and selection) and Quality and Service Committee (service quality and patient safety), and permit the Board to create such other Committees as it deems necessary for the effective governance of the Corporation. Pursuant to this power, the Board has created the following Committees: Finance Committee; Nominations and Governance Committee; Compensation Committee; Investment Committee; Credentials, Policies and Procedures Committee; Information Technology Committee; Development and Community Relations Committee; and Facilities Committee. In addition, from time to time, the Board creates one or more Ad Hoc Committees to deal with such matters as the Board may delegate to such ad hoc committee.

## Management

The bylaws of the Corporation provide for the positions of President (Chief Executive Officer), Chief Financial Officer and Chief Operating Officer. The Board is authorized to appoint the President, after consultation with and nomination by, the President of Stanford University. The President of the Corporation is authorized to appoint the Chief Financial Officer and Chief Operating Officer and is also permitted to appoint and prescribe the duties of such additional officers as the President may deem proper. The President has created the following additional executive and managerial positions, among others: Chief Information Officer, Vice President for Process Excellence, Vice President for Medical Affairs, Vice President for Ambulatory Services, and Vice President for Business Development and Strategic Planning. Biographical information on the current executive management group is set forth below.

**Martha H. Marsh, President and Chief Executive Officer.** Martha H. Marsh became the President and Chief Executive Officer of the Corporation 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. From 1996 to 1998, Ms. Marsh was the Senior Vice President for Professional Services and Managed Care at University of Pennsylvania Health System. 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 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 the Corporation in 2002. Prior to his appointment, Mr. Peterson served as Interim President and Chief Executive Officer of the Corporation 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 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.

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

***Carolyn D. Byerly, Chief Information Officer.*** Carolyn Byerly became the Chief Information Officer at the Corporation in May 2002. Ms. Byerly has nearly 20 years of experience as a Chief Information Officer and Vice President of Information Services for healthcare institutions including Lovelace Health System in Albuquerque, New Mexico, Mayo Clinic in Scottsdale, Arizona, Good Samaritan Health System in San Jose, California and Children's Hospital at the University of California, San Francisco Medical Center.

***Gerald M. Shefren, M.D., Vice President Ambulatory Services.*** Dr. Gerald Shefren became Vice President for Ambulatory Services at the Corporation in April 2003. In addition, he currently serves as Chief of the General Gynecology Division at Stanford University. Formerly, Dr. Shefren was Executive Medical Director of Lifeguard, a large health maintenance organization, Chief Medical Officer of Camino Healthcare, and President and Chairman 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 became Vice President for Process Excellence in June 2003. Prior to coming to the Corporation, 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.

***Kevin Tabb, M.D., Vice President for Medical Affairs.*** Kevin Tabb joined the Corporation as Chief Quality and Medical Information Officer in April 2005 and in January 2008 was promoted to a

newly created position as the Vice President for Medical Affairs. From 2003 until joining the Corporation, Dr. Tabb was President of Clinical Data Services, a division of GE Healthcare Information Technologies. Dr. Tabb received his medical degree from Hebrew University and completed his residency at Hadassah Hospital in Jerusalem, Israel.

***Jenni Vargas, Vice President, Business Development and Strategic Planning.*** Jenni Vargas joined the Corporation in 2007 as Vice President Business Development and in January 2008, Strategic Planning was added to her responsibilities. Prior to joining the Corporation, she worked at HealthNet of California since 1998, most recently as its Healthcare Delivery Officer. She was formerly the Group Vice President for MedPartners Northern California Region, and Vice President and General Manager for Cigna Northern California. Jenni is a graduate of Stanford University. She has an M.B.A. degree from the University of California-Los Angeles.

## **SERVICES, FACILITIES AND OPERATIONS**

The Corporation operates the Hospital and Clinics both on the campus of Stanford University and in nearby communities. In 2007, U.S. News and World Reports ranked the Corporation as one of the nation's top medical centers in cancer treatment, orthopedics, heart and heart surgery, kidney disease and other specialties.

### **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 "SERVICES, FACILITIES AND OPERATIONS—Service Area" herein.

Management of the Corporation has determined to concentrate its planning, development and marketing on five Strategic Clinical Services (the "Strategic Clinical Services"): Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal), Orthopedics and Neurosciences. Historically, these services have been strengths of both the Hospital and Clinics and the School of Medicine. Such services are 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 five Strategic Clinical Services follow. For additional information on the Strategic Clinical Services utilization for the three years ended August 31, 2007 and the six months ended February 28, 2007 and February 29, 2008, see "Strategic Clinical Services Utilization" herein.

***Cardiac Care.*** The Hospital and Clinics are a referral center for the medical and surgical treatment of end-stage heart failure and aortic disease. Treatments available at the Hospital and Clinics include heart, heart/lung and lung transplants, aortic surgery, revascularization, implantation of mechanical pumps to replace heart muscle function as a temporary bridge to transplant and as a permanent therapy, stent placement, catheter ablation, internal cardioverter defibrillators and other electrophysiology treatments for heart rhythm problems, minimally invasive heart surgery and cardiac imaging. Breakthrough therapies, including new interventional devices to treat coronary artery disease and heart failure and to prolong the quality of heart muscle function, have also advanced 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, gynecologic cancers, sarcoma and melanoma, as well as leukemia, lymphoma, and multiple myeloma. The bone marrow transplant program, specializing in the treatment of leukemia, Hodgkin's disease and lymphomas, is a significant part of the cancer treatment program. Many cancer treatments, particularly chemotherapy, are now performed in the ambulatory infusion treatment area which is open 365 days a year. Treatment of brain cancer is also provided and is described below under "Neurosciences." The cancer clinical trials office oversees more than 250 active cancer related clinical trials providing patients access to these experimental treatments.

In March 2004, the Corporation completed construction of a new outpatient facility that supports its cancer programs, among others. The facility allows the Corporation to consolidate its cancer services into one building. This building includes new facilities for radiation oncology and gene therapies and an ambulatory treatment and apheresis center. In January 2007, the construction of ambulatory surgery suites on the third floor of this outpatient facility were completed.

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

***Orthopedics.*** Orthopedics is an area of focus for the Corporation, resulting from an increased demand for less invasive orthopedic procedures that facilitate an active lifestyle. Services provided include total joint replacements, sports medicine, hand and upper extremities, foot and ankle, spine, trauma, tumor, and psychiatry. The adult reconstructive team, also known as total joint replacement team, develops and implements the protocols for recovery and return to productivity. The team also provides the latest in spine surgery enabling high degrees of mobility for patients that are otherwise immobilized through injury or pain and works closely with the multi-disciplinary teams of rehabilitation services and pain management experts to serve the patient from pre-surgery through post-surgical recovery.

The orthopedic program will be the primary clinical tenant in the new outpatient campus that is being developed five miles north of the main campus. Orthopedics is projecting continued double digit growth and will have the opportunity to develop and implement additional innovations as they expand into the new campus.

***Neurosciences.*** Development of treatments for diseases of the brain are emphasized at the Hospital and Clinics. Neurosurgeons, neurologists, radiologists and other specialists collaborate at the Hospital to design and develop these treatments. Brain tumor patients have access to chemotherapy, biologic agent therapy and gene therapy, as well as radiation therapy, including CyberKnife (developed by School of Medicine faculty at the Hospital) for deep-seated brain tumors and brain metastases. An extensive cerebro-vascular surgery program, including neuro-interventional radiology, treats patients with aneurysms, complex vascular malformations, and stroke. The 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.

***Other Clinical Services.*** The Corporation is, in the view of management, a recognized leader in providing a number of other services, including primary care and internal medicine, 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**

The Corporation has acquired additional facilities to deliver patient services in the Local Market (described under the heading "Service Area" below). Such services would be primarily for outpatients, delivered in an off-campus setting that will house ambulatory care and orthopedic centers in facilities constructed and equipped to serve the clinical, educational and research focuses of the Corporation.

The Corporation has directed substantial attention to the rebuilding of the Hospital. Planning, development, and approvals for the replacement of the Hospital are underway. Not only does California Senate Bill 1953 require all acute-care hospitals to meet new stricter seismic safety standards by various deadlines, but management has been aware of the need to consolidate the design and enhance the efficiencies of the Hospital, which was built piecemeal since 1959. In addition, the Hospital is undersized and no longer meets the needs of the community. The Hospital will remain open until the new hospital is completed in order to provide uninterrupted care.

The Corporation also has directed substantial attention to the rebuilding of the Hospital, portions of which date from 1959 and are in need of replacement to comply with state requirements, for greater efficiency and for modernization. Planning, development, and approvals for the replacement of the Hospital with an approximately 650-bed, 1.1 million square-foot inpatient and outpatient facility are underway. The facility will be located adjacent to the present Hospital which will continue in operation during construction of the replacement facility. Management expects these costs to be paid primarily from cash flows from operations, proceeds of tax-exempt debt and donations.

### **The School of Medicine**

The Stanford University School of Medicine was established in 1908 as a part of Stanford University and today is one of the pre-eminent schools of medicine in the United States. In 2007 U.S. News and World Report ranked the School of Medicine seventh nationally among research-oriented medical schools based upon peer assessment surveys. The School of Medicine offers an M.D. program, M.A. and Ph.D. programs in various areas of biosciences, intern and residency programs at the Corporation and LPCH and a Medical Scientist Program in which students earn both an M.D. and Ph.D.

The mission statement of the School of Medicine 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.*** The School of Medicine and the Corporation collaborate on strategies addressing areas of clinical excellence and patient satisfaction and on a variety of initiatives in translational medicine as distinguishing features of the School of Medicine and the Corporation.

Collaborative structures between the School of Medicine and the Corporation include:

- A Council of Clinical Chairs, co-chaired by the Senior Associate Dean for Clinical Affairs of the School of Medicine and the Corporation's Chief Operating Officer. The Council includes the chairs of the 17 departments of the School of Medicine as well as key officers of the Corporation.
- Joint planning involving the School of Medicine, other components of Stanford University and the Corporation to integrate the information technology priorities.
- Coordination of development and philanthropy for the mutual benefit of the two institutions.
- Collaboration in protecting the privacy and security of patient health information.
- Clinical Services and outreach clinics with select community hospitals.

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

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

***Purchased Services from the School of Medicine.*** Services provided by the School of Medicine include physician services that benefit the Hospital and Clinics, such as emergency room coverage, physicians providing medical direction and physicians providing services to the clinical practices, which are covered by the Professional Services Agreement ("PSA") and agreements made during the budgeting process. The expenses for these services are included in purchased services in the consolidated statements of operations and changes in net assets and were approximately \$208 million for the year ended August 31, 2007.

Beginning in the fiscal year commencing September 1, 2005, the Corporation amended the PSA to further align the strategic goals of the Corporation with the academic missions of the School of Medicine. The compensation methodology is based on productivity and degree of complexity of the clinical procedures performed. Under the amended PSA, the payment to the School of Medicine is calculated using the volume of clinical work relative value units. As the School of Medicine achieves the strategic goal of seeing more patients, it is expected the payment to the School of Medicine for services will increase.

See note 11 of "Appendix B—Stanford Hospital and Clinics and Subsidiaries Consolidated Financial Statements" for additional information.

***Other Transactions with Stanford University.*** Services provided by Stanford University include telecommunications, transportation, utilities, blood products, and certain administrative services, which include legal, internal audit and risk management. The Corporation's cost of such services for the fiscal year ended August 31, 2007 was approximately \$64 million and is reflected in various expense categories in the consolidated statement of operations and changes in net assets.

***Transactions with LPCH.*** The Corporation and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. The costs for these shared services are allocated between the Corporation and LPCH based on negotiated rates. For the fiscal year ended August 31, 2007, the total cost of shared services departments was approximately \$218 million of which approximately \$21 million was reimbursed by LPCH. The reimbursement from LPCH is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

The Corporation also provides various services to LPCH, including operating room facilities and services, cardiac catheterization, interventional radiology, radiation oncology and laboratory services. The Corporation charges LPCH for the services and products purchased by LPCH based on either (i) a percentage of charges which is intended to approximate actual cost or (ii) on the basis of actual cost per procedure. Reimbursement from LPCH for purchased services provided by the Corporation totaled approximately \$61 million for the year ended August 31, 2007 and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue. LPCH is in the process of completing the construction of seven operating suites in its facilities. The new facilities are expected to be available for use by LPCH in the fall of 2008 and are expected to result in a reduction of purchased services. However, reduction in such purchased services is expected to result in an increase in surgical capacity for the Corporation.

***Other Related Party Transactions.*** For additional information concerning related party transactions, see Note 11 of the audited consolidated financial statements of the Corporation included in Appendix B.

## Bed Complement

As of August 31, 2007, the licensed and operational bed complement of the Corporation was allocated among the following services:

**TABLE 1**

**Bed Complement by Service  
As of August 31, 2007**

<u>Service</u>	<u>Number of Beds</u>	
	<u>Licensed</u>	<u>Operational</u>
Medical/Surgical	491	335
Intensive Care	67	66
Rehabilitation	17	17 <sup>(1)</sup>
Coronary Care	8	8
Psychiatric	30	30
Total	<u>613</u>	<u>456</u>

<sup>(1)</sup> Subsequent to August 31, 2007, the Corporation has suspended operation of its rehabilitation service including the 17 rehabilitation beds.  
Source: Corporation Records.

## Description of Admitting Medical Staff

As of August 31, 2007, 1,839 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. Eleven hundred and sixty members of the admitting medical staff are full time faculty members (approximately 63% of the total staff) and 679 members of the admitting medical staff are community physicians (approximately 37% of the total staff). Approximately 79% 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 August 31, 2007**

Specialty	Number of Staff	Average Age	Number of Staff Who are Board Certified	Percentage of Staff Who are Board Certified
Anesthesia	160	46	113	70.6%
Cardiac Surgery	29	50	21	72.4
Dermatology	40	50	37	92.5
Diagnostic Radiology	131	47	109	83.2
Emergency Medicine	65	42	48	73.8
Medicine	471	48	406	86.2
Neurology	60	49	51	85.0
Neurosurgery	24	47	15	62.5
Obstetrics and Gynecology	105	46	69	65.7
Ophthalmology	71	52	64	90.1
Orthopedics	94	47	62	66.0
Otolaryngology/Head and Neck	55	47	41	74.5
Pathology	50	50	44	88.0
Pediatrics	171	46	146	85.4
Psychiatry	173	51	107	61.8
Radiation Oncology	17	47	12	70.6
Surgery	103	50	88	85.4
Urology	20	50	19	95.0
Totals	<u>1,839</u>		<u>1,452</u>	
Average Age		<u>48</u>		
Average Percentage				<u>79.0%</u>

Source: Corporation Records.

The following table shows the number of admitting medical staff physicians in each indicated age group, the percentage of the total admitting medical staff for each age group and the percentage of admissions for each age group.

**TABLE 3**

**Admissions by Physician Age Group  
For the Fiscal Year Ended August 31, 2007**

<u>Age Group</u>	<u>Number of Physicians in Age Group</u>	<u>Percent of Physicians in Age Group</u>	<u>Percent Of Total Admissions</u>
25-34	204	11.1%	5.9%
35-44	607	33.0	42.4
45-54	484	26.3	26.6
55-64	367	20.0	20.8
65+	177	9.6	4.3
Total	<u>1,839</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Corporation 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  
For the Fiscal Year Ended August 31, 2007**

<u>Rank/Physician</u>	<u>Admissions</u>	<u>Age</u>
1. Neurosurgery	436	55
2. General Surgery	338	60
3. Neurosurgery	314	63
4. Orthopedic Surgery	312	56
5. Physical Medicine & Rehabilitation	305	50
6. Orthopedic Surgery	298	56
7. General Surgery	295	48
8. Neurosurgery	295	41
9. General Internal Medicine	292	40
10. General Surgery	280	64
Total Admissions	<u>3,165</u>	
Average Age		<u>53</u>

Source: Corporation Records.

**Service Area**

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

**Local Market**—San Mateo and Santa Clara counties comprising the Corporation’s 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 the following information for the Local Market and Regional Markets: (1) patient origination and revenues source by geographic region; (2) actual and projected population and projected population change; and (3) median age and average household income by region.

**TABLE 5**

**Local and Regional Markets  
Clinics Volume and Revenues and  
Certain Demographic Information**

<b>Local and Regional Markets</b>	<b>Patient Origination (%)<sup>(1)(2)</sup></b>	<b>Actual Population 2007<sup>(3)</sup></b>	<b>Projected Population 2012<sup>(3)</sup></b>	<b>Projected Percent Population Change (2007–2012)<sup>(3)</sup></b>	<b>Median Age 2007<sup>(3)</sup></b>	<b>Average Household Income 2007<sup>(3)</sup></b>
Local Market	62.5%	2,442,405	2,511,080	2.81%	39	\$112,418
Regional Market:						
East Bay	11.8	2,509,465	2,618,344	4.34	39	97,811
Central Coast	10.9	1,413,265	1,472,440	4.19	37	76,977
Central Valley	11.6	4,455,877	4,912,686	10.25	32	57,701
North Bay	3.2	1,617,836	1,653,094	2.18	43	94,815
	<u>100%</u>					

(1) Source: The Corporation.

(2) Calendar year 2006.

(3) Source: Solucient Market Planner Plus.

The following table provides the discharge data for calendar years 2004, 2005 and 2006 (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 2006 (the most recent year for which such data are available). The case mix index (the “Case Mix Index”) is an indicator of the complexity and intensity of the services provided:

**TABLE 6**  
**Local Market Area Competitors**  
**Discharge and Case Mix Index Data<sup>(1)</sup>**

	Calendar Year 2004		Calendar Year 2005		Calendar Year 2006		Case Mix Index
	Discharges	%	Discharges	%	Discharges	%	
Stanford Hospital	12,078	6.83%	11,810	6.82%	12,462	7.07%	1.64
Santa Clara Valley Medical Center	18,647	10.55	18,437	10.65%	18,368	10.42%	1.00
El Camino Hospital	14,847	8.40	14,061	8.13	14,661	8.32	1.10
Kaiser – Santa Clara	14,199	8.03	14,083	8.14	14,536	8.25	1.08
Good Samaritan Hospital, San Jose	13,772	7.79	13,619	7.87	13,956	7.92	1.31
Mills-Peninsula Medical Center	13,985	7.91	13,500	7.80	13,144	7.46	1.15
O’Connor Hospital	11,291	6.39	12,680	7.33	12,985	7.37	1.13
Kaiser – Santa Teresa Community Hospital	11,172	6.32	11,565	6.68	11,846	6.72	1.13
Regional Medical Center of San Jose	8,228	4.66	9,566	5.53	10,052	5.70	1.3
Seton Medical Center	6,748	3.82	6,576	3.80	6,894	3.91	1.41
Sequoia Hospital	7,007	3.96	6,792	3.93	6,819	3.87	1.3
Kaiser – Redwood City	6,124	3.46	6,158	3.56	5,959	3.38	1.21
Kaiser – South San Francisco Community Hospital of Los Gatos	4,747	2.69	4,199	2.43	3,910	2.22	1.21
San Mateo County General Hospital	3,129	1.77	3,114	1.80	3,757	2.13	1.02
St. Louise Medical Center	2,619	1.48	2,775	1.60	2,797	1.59	1.01
San Jose Medical Center	4,889	2.77		0.00		0.00	0
Other Hospitals <sup>(2)</sup>	18,662	10.56	18,796	10.86	19,329	10.96	NA
<b>Total</b>	<b>176,752</b>	<b>100%</b>	<b>173,043</b>	<b>100%</b>	<b>176,292</b>	<b>100%</b>	<b>1.2</b>

<sup>(1)</sup> Includes all Santa Clara & San Mateo patients at hospitals in these counties, excluding normal newborn discharges); incorporating state utilization data on discharges and University Hospital Consortium data on case mix indices.

<sup>(2)</sup> Other Hospitals include all hospitals utilized by residents of San Mateo and Santa Clara Counties

Source: Solucient Market Planner Plus

As indicated in the Case Mix Index data in Table 6, the Corporation has a substantially higher Case Mix Index than Local Market competitor hospitals. 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 UCSF, are the only hospitals in the San Francisco Bay Area to offer many of the treatments and procedures necessary for these patients. Management’s strategic decision to concentrate

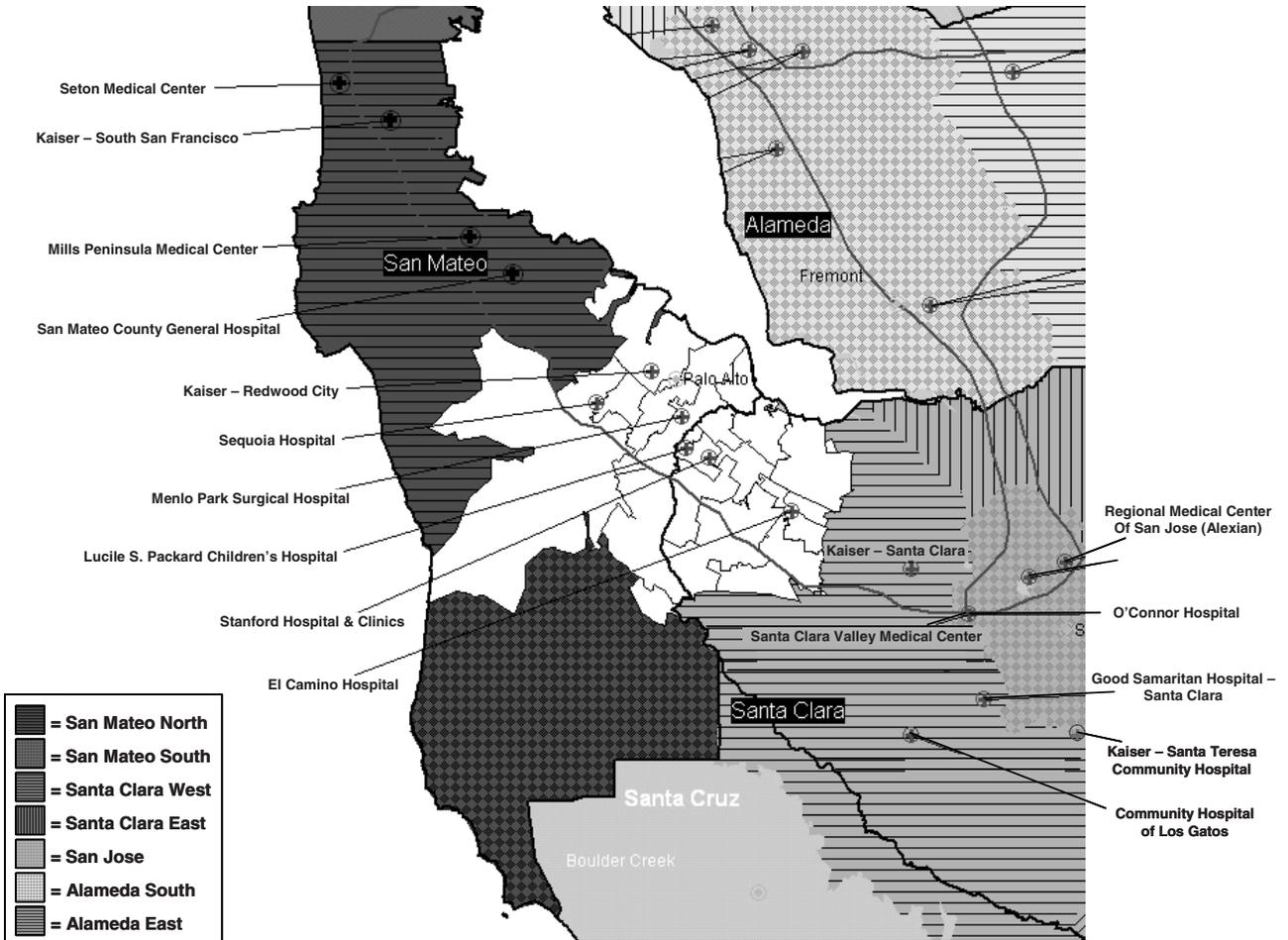
on the five Strategic Clinical Services reflects its opinion that higher acuity services will produce higher operating margins than lower acuity services.

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

- Sequoia Hospital, an acute care hospital in Redwood City operated by Catholic Healthcare West, has commenced construction on a hospital replacement and retrofit project. The redesigned campus will feature a new 167-bed hospital facility. The retrofit of the campus and completion of all projects is estimated to be complete by Winter 2012.
- The Palo Alto Medical Foundation, an affiliate of Sutter Health, plans to construct a medical campus in San Carlos, 9.8 miles from the Hospital. The announced construction plans include medical offices, laboratory and radiology services, emergency care and a 97-bed, full-service, acute care hospital. The campus plans to open by 2012.
- Mills-Peninsula Health Services, an affiliate of Sutter Health, has announced plans to construct a replacement hospital in Burlingame. The hospital will be integrated with a medical office campus. The current flagship facility, Peninsula Medical Center, does not meet California state seismic standards. Initial construction on the replacement facility began in Summer 2005. Completion of the project is scheduled for early 2010.
- Kaiser Permanente constructed a new hospital in the City of Santa Clara that houses 327 licensed beds and opened in mid-2007. The new facility, Santa Clara Medical Center, includes an expanded Emergency Department and specialty centers for pediatrics, cardiovascular services, and cancer treatment. The facility includes approximately 400 physicians.

## Market Share Map

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



## Market Strategy

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

A principal focus of the strategic plan is the five Strategic Clinical Services: Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal), Orthopedics and Neurosciences. The Corporation's goal is to grow inpatient and outpatient volume and expand national/international distinction in these services. The growth strategy is based on leveraging the Corporation's clinical innovations already being applied in these services. See "The School of Medicine" herein. The growth strategy also provides for more rapid translation of 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 dual objectives of sustaining and increasing the share of the Corporation's patient care volume and revenue derived from higher-complexity tertiary and quaternary cases from the Regional, California and National, and International markets, while strengthening its Local Market presence by locating outpatient subspecialty services in selected local communities.

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

- Developing more complex treatments and therapies in both inpatient and outpatient settings.
- Focusing on the more complex and challenging treatment modalities within the Strategic Clinical Services.
- Focusing growth strategies on new services and more advanced treatments and methodologies.

Current actions being taken to implement these strategies include:

- In the Cardiac Care Strategic Clinical Service, concentration on more complex and difficult revascularization procedures, such as coronary artery bypass graft and percutaneous transluminal coronary angioplasty procedures.
- In the Cancer Treatment Strategic Clinical Service, emphasizing the distinctive treatments provided by the Corporation, including bone marrow transplants, radiation therapy, and minimally invasive surgery techniques.
- In the Solid Organ Transplantation (Abdominal) Strategic Clinical Service, emphasizing living donor approaches in liver transplantation and new immuno-suppressant therapies, as organ supply permits.
- In the Orthopedic Strategic Clinical Service, emphasizing total joint replacements, sports medicine, hand and upper extremities, foot and ankle, spine, trauma, tumor, and physiatry.
- In the Neurosciences Strategic Clinical Service, emphasizing chemo, biologic agent and gene and radiation therapies, including the CyberKnife, for spine care and neuro-oncology.

## Utilization

A summary of significant statistical data for the Corporation for the three fiscal years ended August 31, 2007 and for the six-month periods ended February 28, 2007 and February 29, 2008 is presented in the following table.

**TABLE 7**

### Historical Utilization

	Fiscal Years Ended August 31			For the Six Months Ended	
	2005	2006	2007	February 28, 2007	February 29, 2008
<b>Discharges</b>					
Acute	20,549	21,488	22,063	10,737	11,040
Behavioral Health	798	842	865	434	386
Rehabilitation/Skilled Nursing	345	319	306	151	162
<b>Total</b>	<b>21,692</b>	<b>22,649</b>	<b>23,234</b>	<b>11,322</b>	<b>11,588</b>
<b>Patient Days</b>					
Acute	110,880	117,177	119,683	59,451	61,005
Behavioral Health	8,377	8,890	8,821	4,322	4,441
Rehabilitation/Skilled Nursing	4,610	4,664	4,409	2,155	2,202
<b>Subtotal</b>	<b>123,867</b>	<b>130,731</b>	<b>132,913</b>	<b>65,928</b>	<b>67,648</b>
Short Stay Outpatient	6,845	6,585	6,581	3,301	3,162
<b>Total</b>	<b>130,712</b>	<b>137,316</b>	<b>139,494</b>	<b>69,229</b>	<b>70,810</b>
<b>Average Daily Census</b>					
Acute	303.8	320.2	327.9	328.5	335.2
Behavioral Health	23.0	24.3	24.2	23.9	24.4
Rehabilitation/Skilled Nursing	12.6	12.7	12.1	11.9	12.1
<b>Total</b>	<b>339.4</b>	<b>357.2</b>	<b>364.2</b>	<b>364.3</b>	<b>371.7</b>
<b>Average Length of Stay</b>					
Acute	5.4	5.5	5.4	5.5	5.5
Behavioral Health	9.7	10.6	10.2	10.0	11.5
Rehabilitation/Skilled Nursing	14.1	14.6	14.4	14.3	13.6
<b>Average</b>	<b>5.7</b>	<b>5.8</b>	<b>5.7</b>	<b>5.8</b>	<b>5.8</b>
<b>Case Mix Index</b>	<b>1.88</b>	<b>1.86</b>	<b>1.89</b>	<b>1.90</b>	<b>1.94</b>
<b>Emergency Room Visits</b>	<b>40,176</b>	<b>42,518</b>	<b>44,078</b>	<b>22,109</b>	<b>23,133</b>
<b>Short Stay Outpatient Procedures</b>	<b>20,972</b>	<b>21,338</b>	<b>21,711</b>	<b>10,229</b>	<b>10,678</b>
<b>Other Outpatient Visits<sup>(1)</sup></b>	<b>227,827</b>	<b>260,672</b>	<b>256,196</b>	<b>127,564</b>	<b>127,143</b>
<b>Surgeries</b>					
Inpatient	11,044	10,984	11,184	5,380	5,637
Outpatient <sup>(2)</sup>	9,939	10,507	10,712	5,163	5,463
<b>Total</b>	<b>20,983</b>	<b>21,491</b>	<b>21,896</b>	<b>10,543</b>	<b>11,100</b>

Source: Corporation Records.

<sup>(1)</sup> Actual visits will be more; these amounts are billing events which may include multiple visits.

<sup>(2)</sup> Psychiatry and LPCH cases have been excluded.

## Strategic Clinical Services Utilization

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**

	HOSPITAL INPATIENT				HOSPITAL OUTPATIENT			
	Fiscal Year Ended August 31,		Six Months Ended		Fiscal Year Ended August 31,		Six Months Ended	
	2006	2007	February 28, 2007	February 29, 2008	2006	2007	February 28, 2007	February 29, 2008
Cardiovascular <sup>(1)</sup>	3,363	3,297	1,647	1,771	18,727	17,315	8,855	8,275
Neurosciences	2,908	3,094	1,446	1,515	6,916	8,328	3,942	4,700
Oncology	2,021	2,048	1,034	1,010	35,983	39,718	19,523	20,236
Orthopedics	2,824	2,849	1,378	1,379	17,562	18,724	8,934	9,707
Other Surgery <sup>(2)</sup>	5,822	5,955	2,835	2,933	91,111	90,719	45,272	41,525
Other Non Surgery <sup>(3)</sup>	4,857	5,122	2,562	2,555	95,541	86,039	43,146	45,481
Transplants	830	779	399	397	16,232	16,993	8,251	8,057
Totals	22,625	23,144	11,301	11,560	282,072	277,836	137,923	137,981

Source: Corporation Records.

<sup>(1)</sup> Outpatient cases consist of same-day surgeries and treatments.

<sup>(2)</sup> Exclusive of surgeries included in the categories above.

<sup>(3)</sup> Outpatient cases consist of same-day surgeries and treatments, infusion and radiation therapy, laboratory, radiology, and other ancillary services.

## SUMMARY OF FINANCIAL INFORMATION

The following consolidated statements of operations and changes in net assets for the fiscal years ended August 31, 2007, 2006 and 2005 have been derived from the consolidated financial statements of the Corporation and Subsidiaries. Consolidated financial statements of the Corporation and Subsidiaries, which are included as Appendix B, have been audited by PricewaterhouseCoopers LLP, independent accountants, whose report thereon appears in Appendix B hereto. The information for the six month periods ended February 28, 2007 and February 29, 2008 has been derived by management from financial statements of the Corporation for such periods. Such consolidated financial statements are unaudited but in the opinion of the management of the Corporation fairly reflect the results of operations for such interim periods and are presented on a basis consistent with the audited financial statements of the Corporation contained in Appendix B. The summary of the three fiscal years ended August 31, 2007 should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Corporation and Subsidiaries in Appendix B.

The results of MHA, SEROC and SUMIT are consolidated with those of the Corporation for all periods. The financial results of Waverley and PET-CT are reported using the equity method of accounting. In management's view, the assets, liabilities and results of operations and changes in net assets of the subsidiaries are not material to the Corporation.

**TABLE 9**

**The Corporation and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**(In Thousands)**

	Fiscal Years Ended August 31			For the Six Months Ended	
	2005	2006	2007	February 28, 2007	February 29, 2008
Operating Revenues					
Net patient service revenue	\$ 1,274,774	\$ 1,395,356	\$ 1,459,744	\$ 700,005	\$ 772,416
Premium revenue	19,079	20,095	23,160	10,243	11,290
Other revenue	48,810	66,519	73,323	34,143	38,576
Net assets released from restrictions used for operations	4,531	4,222	4,379	1,931	1,968
Total operating revenues	<u>1,347,194</u>	<u>1,486,192</u>	<u>1,560,606</u>	<u>746,322</u>	<u>824,250</u>
Operating Expenses					
Salaries and benefits	528,640	595,789	664,522	325,062	355,669
Professional services	14,945	24,274	23,609	7,907	16,227
Supplies	192,963	213,012	236,010	114,600	116,713
Purchased services	332,546	370,482	368,874	170,036	184,035
Provision for doubtful accounts	51,108	58,930	46,175	27,012	35,508
Depreciation and amortization	39,615	39,372	44,934	21,863	29,659
Interest	19,280	20,848	22,988	11,210	13,326
Other	92,156	100,804	106,029	53,898	60,181
Expense recoveries from related parties	(46,245)	(52,371)	(65,437)	(32,593)	(36,793)
Total operating expenses	<u>1,225,008</u>	<u>1,371,140</u>	<u>1,447,704</u>	<u>698,995</u>	<u>774,525</u>
Income from operations	122,186	115,052	112,902	47,327	49,725
Interest and investment income	6,964	9,193	11,108	5,592	6,670
Income and gains on University managed pools	10,585	44,977	100,394	37,669	23,606
Excess of revenues over expenses	<u>139,735</u>	<u>169,222</u>	<u>224,404</u>	<u>90,588</u>	<u>80,001</u>
Other changes in unrestricted net assets:					
Transfer to Stanford University	(14,524)	(18,100)	(6,776)	(3,659)	(3,931)
Transfer to Lucille Salter Packard Children's Hospital	-	-	(14,352)	(14,352)	-
Change in net unrealized gains and (losses) on investments	10,670	(87)	(278)	(212)	1,126
Net assets released from restrictions used for purchase of property and equipment	71	327	1,360	1,098	521
Change in minimum pension liability	(22,835)	31,657	3,593	-	-
Change in fair value of interest rate swaps	(9,114)	9,069	438	(9,376)	(43,592)
Increase in unrestricted net assets before cumulative effect of change in accounting principle	104,003	192,088	208,389	64,087	34,125
Cumulative effect of change in accounting principle	-	(4,876)	11,613	-	-
Increase in unrestricted net assets	<u>104,003</u>	<u>187,212</u>	<u>220,002</u>	<u>64,087</u>	<u>34,125</u>
Changes in temporarily restricted net assets:					
Contributions	7,896	9,158	31,240	2,021	1,960
Investment income	89	388	569	168	182
Income and gains on University managed pools	1,696	1,742	2,511	677	218
Net assets released from restrictions for:					
Operations	(4,531)	(4,222)	(4,379)	(1,931)	(1,968)
Purchase of property and equipment	(71)	(327)	(1,360)	(1,098)	(521)
Increase/(decrease) in temporarily restricted net assets	<u>5,079</u>	<u>6,739</u>	<u>28,581</u>	<u>(163)</u>	<u>(129)</u>
Changes in permanently restricted net assets:					
Contributions	1,025	1,000	1,920	1,000	1,000
Increase in permanently restricted net assets	<u>1,025</u>	<u>1,000</u>	<u>1,920</u>	<u>1,000</u>	<u>1,000</u>
Increase in net assets	110,107	194,951	250,503	64,924	34,996
Net assets, beginning of year	<u>344,953</u>	<u>455,060</u>	<u>650,011</u>	<u>650,011</u>	<u>900,514</u>
Net assets, end of year	<u>\$ 455,060</u>	<u>\$ 650,011</u>	<u>\$ 900,514</u>	<u>\$ 714,935</u>	<u>\$ 935,510</u>

## **Management's Discussion and Analysis**

In the following narrative, dollar amounts and percentages have been rounded in some cases to simplify the presentation of information; the amounts are stated materially accurately, in management's view. More specific dollar amounts are to be found in the consolidated financial statements of the Corporation and Subsidiaries included as Appendix B.

### ***Accounting Policies***

#### **Use of Estimates**

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

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

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

### ***Historical Performance***

For the three years ended August 31, 2007, the Corporation continued to strengthen its financial position to support investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities its serves. The cumulative Income from Operations before investment income for the three years ending August 31, 2007 was \$350 million. Cumulative Investment Income for the three years ending August 31, 2007 was \$183 million. The cumulative Increase in Net Assets for the three years ending August 31, 2007 was \$556 million. Cumulative capital expenditures for the three years ended August 31, 2007 were \$355 million.

### ***Financial Performance in Fiscal Year 2005***

The Corporation generated Income from Operations before Investment Income of \$122 million. Net patient revenues grew 17% to \$1.3 billion in fiscal year 2005, compared to \$1.1 billion in fiscal year 2004. This increase is primarily due to increased patient acuity and volumes. Total patient days increased 3%, and patient discharges were up 2% over fiscal year 2004. Inpatient surgeries increased by 11% and emergency room visits were 3% higher than in fiscal year 2004. Inpatient cancer discharges grew 5% over the prior year. Inpatient revenue grew 18% from fiscal year 2004 and now represents 54% of net patient revenues. Outpatient revenue was up 15% over fiscal year 2004 and comprises 46% of net patient revenues.

Investment income increased by 88% from \$9.3 million to \$17.5 million at August 31, 2005.

As a result, for the fiscal year ended August 31, 2005 the Corporation's excess of revenues over expenses increased by \$38 million to approximately \$140 million and net assets increased \$110 million to \$455 million at August 31, 2005.

#### ***Financial Performance in Fiscal Year 2006***

The Corporation generated excess revenues over expenses of \$169 million or a \$29 million increase from \$140 million in fiscal year 2005. Most of this increase was due to the increase in investment income of \$36 million from \$18 million in 2005 to \$54 million in 2006. This improvement was the combined result of improving cash and investments position and excellent returns on the Corporation investments held through Stanford University.

Income from Operations before investment income was \$115 million for the year ended August 31, 2006 versus \$122 million for the year ended August 31, 2005. Net patient revenues grew 9% to \$1.4 billion in fiscal year 2006, compared to a 17% increase \$1.3 billion in fiscal year 2005. Despite capacity limitations, total patient days increased 5%, and patient discharges were up 4% over fiscal year 2005. Inpatient revenues, which continued to make up 55% of the total, grew by 11% and outpatient revenues increased by 8%.

Net assets increased by \$195 million to \$650 million at August 31, 2006. The Corporation continued to rebuild its balance sheet to support the expansion of services to the community and to support the shared missions of the Hospital and the School of Medicine.

#### ***Financial Performance in Fiscal Year 2007***

The Corporation's net assets increased \$251 million to \$901 million at August 31, 2007. In 2007, the Corporation generated \$224 million in excess revenues over expenses compared to \$169 million in 2006. Investment income increased to \$112 million up from \$54 million as a result of continued excellent returns on the Corporation investments held through Stanford University.

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

Fiscal year 2007 revenues and expenses are compared to fiscal year 2006 excluding the pediatric and obstetric practice services. Income from operations before investment income was \$113 million, down 2% from \$115 million from fiscal year 2006. Net patient revenues grew 5% to \$1.5 billion in fiscal year 2007, compared to \$1.4 billion in fiscal year 2006. Both patient acuity and volumes slightly increased for the year. Total patient days increased 2%, and patient discharges were up 3% over fiscal year 2006. Inpatient revenues, which make up 53% of the total, grew by 7% despite existing capacity limitations. Outpatient revenues increased by 12%, accounting for 47% of the total.

#### ***Financial Performance for the Six-Month Period Ended February 28, 2007 and February 29, 2008***

The following comments are made with regard to the six-month periods ended February 28, 2007 and February 29, 2008.

During the six-month period ended February 29, 2008, the Corporation reported Income from Operations before investment income of \$50 million, slightly up from \$47 million for the six-month

period ended February 28, 2007. Net patient revenues increased by 10%, or \$72 million. For the period ended February 29, 2008, both patient days and patient discharges increased by 2% compared to the period ended February 28, 2007.

Investment income earned was \$30 million and \$43 million for the period ended February 29, 2008 and February 28, 2007, respectively. The fair value of the interest rate swaps decreased by \$44 million and \$9 million for the period ended February 29, 2008 and February 28, 2007, respectively. As a result, the Corporation's net assets increased by \$35 million and \$65 million for the period ended February 29, 2008 and February 28, 2007, respectively.

During the second quarter of fiscal year 2008 management decided to discontinue the Outreach Laboratory services. Detailed planning for the closure has begun and the closure is anticipated to be completed during the last quarter of fiscal year 2008. As a result, management will report the associated losses from operations and cash flows separately as discontinued operations at that time.

In February 2008, there was turbulence in the insured municipal bond auction market of which the Corporation had outstanding insured auction rate bonds totaling \$578.5 million. The turbulence has resulted in additional interest rate cost. It is the opinion of management that there will not be a material adverse effect on the combined financial position or results of operations as a result of these auctions.

#### ***Pension Funding Requirements.***

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

In addition, certain employees are covered by a noncontributory defined benefit plan, the Staff Pension Plan (the "SPP") that was frozen to new participants in 1997. Benefits are based on years of service and the employee's compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The financial performance of pension fund investments of the SPP can have a significant impact on the amount of pension expense and the recorded pension liability, as well as the amount and timing of pension contributions. Other factors can also have a significant impact on pension expense and contributions, such as interest rate levels and salary inflation. Taken together, these factors can have a material impact on both the results of operations and liquidity.

For additional information on the Corporation's retirement plans see Note 9 of the audited consolidated financial statements of the Corporation included in Appendix B.

## 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, 2007, as adjusted to reflect the issuance of \$428.5 million in principal amount of the Bonds and the Other Bonds as of August 31, 2007 and the refunding of the Refunded Bonds. The information included in the table below has been derived from information that is included in the audited consolidated financial statements in Appendix B.

**TABLE 10**

**Pro Forma Consolidated Capitalization  
(Dollars in Thousands)**

	<b>Pro Forma</b>
Existing Net Long-Term Debt*	\$ 840,703
Refunded Bonds	(428,500)
The Bonds and Other Bonds	428,500
Total Long-Term Debt	840,703
Unrestricted Net Assets	843,693
Total Consolidated Capitalization	<u>\$1,684,396</u>
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	<u>49.9%</u>

Source: Corporation Records.

\* Less current portion of long-term debt.

## Liquidity

The following table, prepared by management of the Corporation, sets forth the consolidated cash position and liquidity of the Corporation and its subsidiaries at August 31, 2007:

**TABLE 11**

**Consolidated Liquidity  
(Dollars in Thousands)**

	<b>As of August 31, 2007</b>
Cash and Cash Equivalents	\$39,278
Investments	44,674
Investments in Stanford University Managed Pools	815,970
Less Temporarily and Permanently Restricted Assets	(26,852)
<b>Total Liquid Assets</b>	<u>\$873,070</u>
Days Cash on Hand	<u>227.2</u>

Source: Corporation records

## Pro Forma Debt Service Coverage

The following table, prepared by management of the Corporation, sets forth the actual maximum debt service coverage for fiscal years ended August 31, 2006 and 2007 and the pro-forma debt service coverage for the Corporation to reflect the issuance of the Bonds and the Other Bonds, in the aggregate principal amount of \$428.5 million, and the redemption of the Prior Bonds as if all such actions had occurred at August 31, 2007:

**TABLE 12**

**Consolidated Pro Forma Debt Service Coverage  
(In Thousands)**

	<b>Actual</b>		<b>Pro Forma</b>
	<b>2006</b>	<b>2007</b>	<b>2007</b>
Net income	\$169,222	\$224,404	\$224,404
Depreciation and Amortization	39,372	44,934	44,934
Interest Expense	20,848	22,988	22,988
Funds Available for Debt Service	<u>\$229,442</u>	<u>\$292,326</u>	<u>\$292,326</u>
Maximum Annual Debt Service	<u>\$45,203</u>	<u>\$45,203</u>	<u>\$45,203</u>
Coverage of Pro Forma Maximum Annual Debt Service	<u>5.1</u>	<u>6.5</u>	<u>6.5</u>

Source: Corporation Records.

## 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, prepared by management of the Corporation, summarizes the percentage of gross patient revenues by source of payment to the Corporation for the fiscal years ended August 31, 2005, 2006 and 2007.

**TABLE 13**

**Gross Patient Service Revenues**

Source	Fiscal Years Ended August 31,		
	2005	2006	2007
Medicare	27%	27%	28%
Medi-Cal	5	6	5
Managed Care	52	53	53
Commercial and Other	16	14	14
Total	100%	100%	100%

Source: Corporation Records.

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

See “BONDHOLDERS’ RISKS” in the 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 maintains contracts with most managed care plans operating in Northern California. Management monitors the financial performance under these contracts on a regular basis and pursues renegotiation when appropriate and where feasible with the objective of operating within the financial constraints of its managed care contracts.

The largest volume commercial payers for the Corporation in fiscal year 2007 were: Aetna, Blue Cross of California, Blue Shield of California, Cigna, HealthNet, and United/PacificCare. All commercial agreements are fee-for-service. Fee-for-service reimbursement employs the traditional methodologies including percent of charges, per diems, case rates, surgical schedules and stop-loss. Management has one fixed fee or capitation agreement, HealthNet Seniority Plus (a Medicare HMO), for members of the Palo Alto Medical Foundation. Enrollment in this product has been relatively stable over the past year and now serves approximately 5,000 members.

**Investments**

As of August 31, 2007, the Corporation’s funds were invested in a portfolio which included 4% cash and cash equivalents, 4% in mutual fund fixed income investments and 92% 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, 2007, accounting for the Corporation's interest in pooled funds managed by Stanford University and earnings therefrom, see Note 6 in Appendix B.

### **ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL CERTIFICATION**

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

### **PROFESSIONAL LIABILITY AND OTHER INSURANCE**

The Corporation maintains coverage of professional and comprehensive, general liability, and other coverage's through programs of self-insurance, and reinsurance or third-party insurance. Primary and excess layers of such liability are insured through the SUMIT (the "Affiliated Insurer"), an affiliated insurer that is controlled by the Corporation, under policies written on a claims-made basis. SUMIT provides hospital and medical professional liability insurance covering general liability, medical malpractice liability, employment practices 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, 2007 to September 1, 2008 SUMIT retains 100% of the risk related to the first \$15 million of losses by the Corporation, LPCH and the Stanford School of Medicine. SUMIT has obtained \$75 million of excess reinsurance jointly covering the Corporation, LPCH and the Stanford School of Medicine. The remaining risk up to the \$40 million level is covered under reinsurance and excess policies covering the Corporation, LPCH, and Stanford School of Medicine. For policy years before September 1, 2005 SUMIT 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 SUMIT, the Corporation obtains coverage of various risks under policies issued by commercial insurers. These policies typically name LPCH and, in some cases, Stanford 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 \$750,000 per claim for the current fiscal year. It obtains property damage insurance under commercial policies with limits shared with 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 in aggregate of \$80 million 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 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 Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Corporation nor the title of the present directors or officers of the Corporation to their respective offices is being contested. The Corporation is not now a party to any pending litigation, and is not aware of any circumstances that would likely result in such litigation that in any manner questions the right of the Corporation to use the proceeds of the Bonds as described in this Official Statement, including the section entitled “Bondholders’ Risks,” and in accordance with the provisions of the Act and the Indenture.

## **EMPLOYEES**

As of August 31, 2007, the Corporation employed 4,494 full-time, and 1,078 regular part time and 403 per diem/PRN (as needed) staff, equivalent to 5,122 full-time equivalent (“FTE”) employees excluding leased employees to LPCH.

As of August 31, 2007, the Corporation’s nursing departments employed 3,387 full and part time personnel, or 2,648 FTE employees, consisting of 1,417 FTE registered nurses (“RNs”), 18 FTE licensed practical nurses, 985 non supervisory staff, and 228 FTE supervisory, clerical and other support staff. Turnover rate for the nursing staff for the past twelve months was approximately 10 % for RNs.

The Corporation leases 2,540 employees (2,025 FTE) to LPCH and 955 (877 FTE) work in Shared Services. For additional information concerning Shared Services, see “Facilities, Operations and Services—Operational Relationships Among the Corporation, Stanford University and LPCH.”

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**APPENDIX B**  
**CONSOLIDATED FINANCIAL STATEMENTS OF**  
**THE CORPORATION AND SUBSIDIARIES**

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# **Stanford Hospital and Clinics and Subsidiaries**

**Consolidated Financial Statements  
August 31, 2007 and 2006**

**Stanford Hospital and Clinics and Subsidiaries**  
**Index**  
**August 31, 2007 and 2006**

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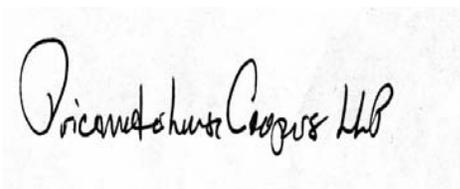
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**Report of Independent Auditors**

To the Board of Directors  
Stanford Hospital and Clinics and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and consolidated cash flows present fairly, in all material respects, the financial position of Stanford Hospital and Clinics and subsidiaries ("SHC") at August 31, 2007 and 2006 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of SHC's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, SHC adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Postretirement Plans*. As discussed in Note 2 to the consolidated financial statements, in 2006 SHC applied the provisions of Financial Accounting Standard No. 47, *Accounting for Conditional Asset Retirement Obligations*, and changed its method of reporting conditional asset retirement obligations. In accordance with the transition provisions of these pronouncements, the 2007 and 2006 consolidated financial statements include the cumulative effect of adopting these new pronouncements.



December 4, 2007

**Stanford Hospital and Clinics and Subsidiaries**  
**Consolidated Balance Sheets**  
**August 31, 2007 and 2006**  
**(in thousands of dollars)**

	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 39,278	\$ 20,695
Assets limited as to use, held by trustee	2,333	14,809
Patient accounts receivable, net of allowance for doubtful accounts of \$72,695 and \$89,924 at August 31, 2007 and August 31, 2006	215,953	207,533
Other receivables	15,346	13,350
Inventories	20,636	17,740
Prepaid expenses and other	5,833	4,127
Total current assets	<u>299,379</u>	<u>278,254</u>
Investments	44,674	48,449
Investments in University managed pools	815,970	701,104
Assets limited as to use, held by trustee, net of current portion	331,607	387,971
Property and equipment, net	511,421	403,904
Other assets	83,898	56,753
Total assets	<u>\$ 2,086,949</u>	<u>\$ 1,876,435</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 101,385	\$ 91,142
Accrued salaries and related benefits	72,874	80,558
Due to related parties	22,252	34,021
Third-party payer settlements	14,526	23,087
Current portion of long-term debt	8,033	7,100
Self-insurance reserves	21,579	19,742
Total current liabilities	<u>240,649</u>	<u>255,650</u>
Self-insurance reserves, net of current portion	86,866	102,729
Other long-term liabilities	16,985	8,174
Pension liability	1,232	12,092
Long-term debt, net of current portion	840,703	847,779
Total liabilities	<u>1,186,435</u>	<u>1,226,424</u>
Net assets		
Unrestricted	843,693	623,691
Temporarily restricted	51,310	22,729
Permanently restricted	5,511	3,591
Total net assets	<u>900,514</u>	<u>650,011</u>
Total liabilities and net assets	<u>\$ 2,086,949</u>	<u>\$ 1,876,435</u>

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

**Stanford Hospital and Clinics and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended August 31, 2007 and 2006**  
**(in thousands of dollars)**

	2007	2006
<b>Operating revenues</b>		
Net patient service revenue	\$ 1,459,744	\$ 1,395,356
Premium revenue	23,160	20,095
Other revenue	73,323	66,519
Net assets released from restrictions used for operations	4,379	4,222
Total operating revenues	<u>1,560,606</u>	<u>1,486,192</u>
<b>Operating expenses</b>		
Salaries and benefits	664,522	595,789
Professional services	23,609	24,274
Supplies	236,010	213,012
Purchased services	368,874	370,482
Provision for doubtful accounts	46,175	58,930
Depreciation and amortization	44,934	39,372
Interest	22,988	20,848
Other	106,029	100,804
Expense recoveries from related parties	(65,437)	(52,371)
Total operating expenses	<u>1,447,704</u>	<u>1,371,140</u>
Income from operations	112,902	115,052
Interest and investment income	11,108	9,193
Income and gains on University managed pools	100,394	44,977
Excess of revenues over expenses	224,404	169,222
<b>Other changes in unrestricted net assets</b>		
Transfers to Stanford University	(6,776)	(18,100)
Transfers to Lucile Salter Packard Children's Hospital	(14,352)	-
Change in net unrealized losses on investments	(278)	(87)
Net assets released from restrictions used for		
Purchase of property and equipment	1,360	327
Change in minimum pension liability	3,593	31,657
Change in fair value of interest rate swaps	438	9,069
Increase in unrestricted net assets before cumulative effect of change in accounting principle	208,389	192,088
Cumulative effect of change in accounting principle	11,613	(4,876)
Increase in unrestricted net assets	<u>220,002</u>	<u>187,212</u>
<b>Changes in temporarily restricted net assets</b>		
Contributions	31,240	9,158
Investment income	569	388
Income and gains on University managed pools	2,511	1,742
Net assets released from restrictions for		
Operations	(4,379)	(4,222)
Purchase of property and equipment	(1,360)	(327)
Increase in temporarily restricted net assets	<u>28,581</u>	<u>6,739</u>
<b>Changes in permanently restricted net assets</b>		
Contributions	1,920	1,000
Increase in permanently restricted net assets	<u>1,920</u>	<u>1,000</u>
Increase in net assets	250,503	194,951
Net assets, beginning of year	<u>650,011</u>	<u>455,060</u>
Net assets, end of year	<u>\$ 900,514</u>	<u>\$ 650,011</u>

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

**Stanford Hospital and Clinics and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended August 31, 2007 and 2006**  
**(in thousands of dollars)**

	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 250,503	\$ 194,951
Cumulative effect of change in accounting principle	(11,613)	4,876
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Decrease in minimum pension liability	(3,593)	(31,657)
Depreciation and amortization of bond discounts	45,998	39,882
Provision for doubtful accounts	46,175	58,930
Change in fair value of interest rate swaps	863	(9,199)
Income and gains on investments in University managed pools	(83,632)	(23,912)
Unrealized losses on investments	278	87
Realized gains on investments	(2,246)	(480)
Contributions received for long lived assets or endowment	(29,412)	(6,257)
Changes in operating assets and liabilities:		
Patient accounts receivable	(54,595)	(86,435)
Due to related parties	(11,769)	(5,342)
Other receivables, inventory, other assets, prepaid expenses and other	(7,858)	(11,115)
Accounts payable, accrued liabilities and pension liabilities	(5,288)	(4,531)
Accrued salaries and related benefits	(7,684)	12,666
Third-party payer settlements	(8,561)	2,906
Self-insurance reserves	(5,729)	(2,261)
Other long-term liabilities	8,885	(598)
Cash provided by operating activities	<u>120,722</u>	<u>132,511</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(65,957)	(40,484)
Sales of investments	71,591	32,420
Purchases of investments in University managed pools	(31,971)	(118,349)
Sales of investments in University managed pools	737	23,511
Decrease (increase) in assets limited as to use	68,840	(291,333)
Purchases of property and equipment	(140,762)	(163,330)
Cash (used in) investing activities	<u>(97,522)</u>	<u>(557,565)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt	1,150	428,500
Costs of issuance of debt	-	(18,987)
Payment of long-term debt and capital lease obligation	(7,485)	(3,245)
Contributions received for long lived assets or endowment	1,718	4,007
Cash (used in) provided by financing activities	<u>(4,617)</u>	<u>410,275</u>
Net increase (decrease) in cash and cash equivalents	18,583	(14,779)
Cash and cash equivalents at beginning of year	<u>20,695</u>	<u>35,474</u>
Cash and cash equivalents at end of year	<u>\$ 39,278</u>	<u>\$ 20,695</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 33,894	\$ 25,197
Payables for property and equipment	11,689	8,623
Increase in value of interest in University managed pools	83,632	23,912
Assets acquired under capital leases	5,875	-

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

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 1. Organization

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

The Board of Trustees of Leland Stanford Junior University (the "University") is the sole corporate member of Stanford Hospital and LPCH. As part of their ongoing operations, Stanford Hospital and LPCH engage in certain related party transactions as described further in Note 11.

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

Stanford Hospital's interest in MHA was 100% for the years ended August 31, 2007 and 2006. MHA is a wholly owned California limited liability company that operates an outpatient clinic.

Stanford Hospital's share of net assets in SUMIT, a captive insurance carrier, was 91.8% and 96.0% for the years end August 31, 2007 and 2006, respectively. LPCH's share of net assets in SUMIT was 8.2% and 4.0% for the years end August 31, 2007 and 2006, respectively. This is recorded as a minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

SEROC is a newly formed joint venture between Stanford Hospital and Emanuel Medical Center ("EMC") during the fiscal year August 31, 2007. SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. Stanford Hospital's interest in SEROC was 60% during the year ended August 31, 2007. The remaining interest of 40% is recorded as minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

### 2. Summary of Significant Accounting Policies

#### Principles of Consolidation

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

#### Basis of Presentation

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

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (Continued)

#### Basis of Presentation (continued)

- **Unrestricted net assets** — Unrestricted net assets represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of SHC and the purposes specified in its articles of incorporation or bylaws and, limits resulting from contractual agreements, if any.
- **Temporarily restricted net assets** — Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of SHC pursuant to those stipulations or by the passage of time.
- **Permanently restricted net assets** — Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that they be maintained permanently by SHC. Generally, the donors of these assets permit SHC to use all or part of the investment return on these assets.

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

#### Cash and Cash Equivalents

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

#### Assets Limited as to Use, Held by Trustee

Assets limited as to use include various accounts held with a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash and cash equivalents and short-term investments, recorded at cost, which approximates fair value. Amounts required to fund current liabilities of SHC have been classified as current assets in the consolidated balance sheets at August 31, 2007 and 2006.

#### Inventories

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

#### Investments

Investments held directly by SHC consist of cash and cash equivalents, common stocks, mutual funds and fixed-income securities (government bonds), and are stated at fair value. Fair value is based on quoted market prices. Investment earnings (including realized gains and losses on investments, interest, dividends and impairment loss on investment securities) are included in investment income unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from the appropriate net asset category based on the donor's restriction. Unrestricted unrealized gains and losses on other than trading securities are separately reported below the excess of revenues over expenses.

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (Continued)

#### Investments in University managed pools

Investments in University managed pools consist of funds invested in the University's Merged Pools ("MP"), Expendable Funds Pool ("EFP"), and Active Cash Fund ("ACF") (collectively the "Pools"). Under the terms of the SHC's agreement with the University, the University has discretion to invest funds invested in the Pools. SHC may deposit funds in the Pools at its discretion. SHC can withdraw funds from ACF at any time; however, withdrawals from the MP and EFP require advance notice to the University. SHC's share of the Pools is stated at fair value as determined by the University. The University determines fair value based upon the fair value of the underlying assets in the Pools.

The University allocates investment earnings to SHC from the University managed pools based on SHC's share of the Pools. Earnings include interest, dividends, distributions, investment gains and losses, and the increases or decreases in the value of SHC's share of the pools. For the years ended August 31, 2007 and 2006, all investments gains and losses are treated as realized and included in the excess of revenues over expenses.

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

#### Property and Equipment

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

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

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

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

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

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (Continued)

#### Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently accreted over the useful lives of the related assets. Subsequent to the initial recognition of the ARO liability during the fiscal year ended August 31, 2006, no changes were made to the original estimate of ARO liability. SHC records current period accretion expense of \$293 and is included in the consolidated statements of operations and changes in net assets as depreciation expense. ARO liability of \$5,767 and \$5,474 is included in other long-term liabilities on the consolidated balance sheet as of August 31, 2007 and 2006, respectively.

For fiscal year ended August 31, 2006, upon adoption of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), SHC recognized an asset retirement obligation of \$5,474 included in other long-term liabilities, increased property and equipment by \$598 net of accumulated depreciation and recorded a non-cash cumulative effect charge of \$4,876.

#### Other Assets

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

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

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

SHC's interest in Waverley was 33.70% and 34.88% for the years ended August 31, 2007 and 2006, respectively. SHC's interest in PET-CT was 50% for the years ended August 31, 2007 and 2006. As SHC has 50% or less ownership and does not have control, these investments are recorded using the equity method.

#### Contributions Receivable

Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as either temporary or permanently restricted net assets and are included as restricted contributions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the promises are received, and recorded in their respective net asset category. The discount rates range from 4.43% to 4.85% in 2007 and 4.33% to 5.00% in 2006. Amortization of the discount is included in contributions in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (Continued)

#### **Contributions Receivable (continued)**

Contributions receivable as of August 31, 2007 and 2006 were \$31,430 and \$4,610, respectively. Current portion of contributions receivable of \$5,658 and \$2,461 is included in other receivables in the consolidated balance sheets as of August 31, 2007 and 2006, respectively. Long term portion of contributions receivable of \$25,772 and \$2,149 is included in other assets in the consolidated balance sheets as of August 31, 2007 and 2006, respectively.

#### **Premiums and Discounts on Long-Term Debt**

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

#### **Interest Rate Swap Agreements**

SHC has entered into several interest rate swap agreements, also known as risk management or derivative instruments, to reduce the effect of interest rate fluctuation on its variable rate bonds. SHC designates at inception whether the swap agreement is considered hedging or non-hedging for accounting purposes in accordance with Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*. All swaps are recognized on the consolidated balance sheets at their fair value. The net cash payments or receipts under the interest rate swap agreements that have been designated as cash flow hedges are recorded as an increase (decrease) to interest expense. The net cash payments or receipts under interest rate swap agreements not designated as cash flow hedges are recorded as an increase (decrease) to other expense.

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

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

#### **Excess of Revenues over Expenses**

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

#### **Net Patient Service Revenue**

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

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 2. Summary of Significant Accounting Policies (Continued)

#### Premium Revenue

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

#### Charity Care

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

#### Income Taxes

SHC and SUMIT are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The estimated tax liability pertaining to unrelated business taxable income associated with Waverley has been recorded as \$987 and \$395 at August 31, 2007 and 2006, respectively, and is included in accounts payable and accrued liabilities on the consolidated balance sheets.

#### Self-Insurance Plans

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

- **Professional Liability** — SHC is self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC also maintains professional liability reserves for claims not covered by SUMIT which totals \$4,720. For the policy September 1, 2006 to September 1, 2007, SUMIT retains 100% of the risk related to the first \$15,000 per occurrence. The next \$115,000 is transferred to various reinsurance companies. For the period from September 1, 2005 to September 1, 2006, SHC maintained the same policy as the fiscal year 2007. In addition, SHC, LPCH and the University purchased an additional \$100,000 umbrella insurance policy for fiscal year 2006.
- **Postretirement Medical Benefits** – Liabilities for post-retirement medical claims for current and retired employees are actuarially determined.
- **Workers’ Compensation** — SHC purchases insurance for workers’ compensation claims with a \$750 deductible per occurrence. Workers’ compensation insurance provides statutory limits for the State of California. An actuarial estimate of retained losses (or losses retained within the deductible) has been used to record a liability.
- **Health and Dental** — Liabilities for health and dental claims for current employees are based on estimated costs.

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(in thousands of dollars)

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**2. Summary of Significant Accounting Policies (Continued)**

**Fair Value of Financial Instruments**

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

**Use of Estimates**

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

**New Accounting Standards**

In fiscal year 2007, SHC adopted Statement of Financial Accounting Standard ("SFAS") No. 158, *Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans*. SFAS No. 158 focuses primarily on balance sheet reporting and requires the recognition of the funded status of the defined benefit pension and post-retirement benefit plans in the consolidated balance sheet.

The following table summarizes the incremental effects of the initial adoption of SFAS 158 on SHC's consolidated balance sheet as of August 31, 2007.

	<b>Before Application of SFAS 158</b>	<b>SFAS 158 Adjustments</b>	<b>After Application of SFAS 158</b>
Self-insurance reserves, net of current portion	\$ 95,163	\$ (8,297)	\$ 86,866
Pension liability	4,548	(3,316)	1,232
Total liabilities	1,198,048	(11,613)	1,186,435
Cumulative effect of change in accounting principle	-	11,613	11,613
Total net assets	888,901	11,613	900,514
Total liabilities and net assets	2,086,949	-	2,086,949

The impact of the adoption of SFAS 158 resulted in a net increase of \$11,613 in unrestricted net assets which has been recorded as a non-cash cumulative effect of change in accounting principle in the consolidated statement of operations and changes in net assets. See footnote 9 for further details on retirement plans.

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 3. Net Patient Service Revenue

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

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

Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. SHC is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially completed. SHC's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2001.

Professional services are reimbursed based on a fee schedule.

- **Medi-Cal** — Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a contract at a prospectively determined negotiated per diem rate. Outpatient services are reimbursed based upon prospectively determined fee schedules. Professional services are reimbursed based on a fee schedule.
- **Other** — SHC has entered into agreements with numerous non-government third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:
  - Commercial insurance companies, including workers' compensation plans, which reimburse SHC at negotiated charges.
  - Managed care contracts such as those with HMOs and PPOs, which reimburse SHC at contracted or per diem rates, which are usually less than full charges.
  - Counties in the State of California, which reimburse SHC for certain indigent patients covered under county contracts.

Amounts due from Blue Cross represent 16% of net patient accounts receivable at August 31, 2007 and 2006. Amounts due from Medicare represent 14% net patient accounts receivable at August 31, 2007 and 2006. SHC does not believe there are significant credit risks associated with this government agency and this health care payor.

SHC recognized net patient service revenue of \$8,212 and \$15,687 as a result of prior years favorable developments related to reimbursement for the years ended August 31, 2007 and 2006, respectively.

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(in thousands of dollars)

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**3. Net Patient Service Revenue (Continued)**

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

	<b>2007</b>	<b>2006</b>
Medicare	\$ 303,847	\$ 292,096
Medi-Cal	27,017	31,351
Managed Care - Capitation	20,203	20,095
Managed Care - Discounted Fee for Services	934,316	862,714
Self pay and other	136,915	158,546
Related party	60,606	50,649
	<u>\$ 1,482,904</u>	<u>\$ 1,415,451</u>

**4. Charity Care**

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

	<b>2007</b>	<b>2006</b>
Charity care at established rates	\$ 40,051	\$ 35,723
Estimated cost of charity care	11,591	11,074

Estimated cost in excess of reimbursement for Medi-Cal and county services was \$52,807 and \$49,300, respectively, for the years ended August 31, 2007 and 2006.

**5. Assets Limited As to Use, Held by Trustee**

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

	<b>2007</b>		<b>2006</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Cash and cash equivalents	<u>\$ 333,940</u>	\$ 333,940	<u>\$ 402,780</u>	\$ 402,780
Less: Current portion of assets limited as to use, held by trustee		<u>(2,333)</u>		<u>(14,809)</u>
Assets limited as to use, held by trustee, net of current portion		<u>\$ 331,607</u>		<u>\$ 387,971</u>

SHC is required to maintain a debt service reserve fund with the trustee in connection with the 2003 bonds (see Note 8). The value of the deposits with the trustee was \$14,269 at August 31, 2007 and 2006. SHC has entered into an agreement with a nationally recognized broker to invest the deposits held by the trustee, whereby the broker has guaranteed a fixed rate of 4.3% return on the deposits. The broker has deposited collateral with the trustee in the event it defaults under the agreement.

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(in thousands of dollars)

**6. Investments and Investments in University Managed Pools**

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

	<b>2007</b>		<b>2006</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Investments:				
Cash and cash equivalents	\$ 12,341	\$ 12,341	\$ 11,791	\$ 11,791
Mutual funds	31,769	31,995	-	-
Equity securities	-	338	9,661	10,585
Government & corporate debt securities	-	-	26,046	26,073
	<u>\$ 44,110</u>	<u>\$ 44,674</u>	<u>\$ 47,498</u>	<u>\$ 48,449</u>

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

	<b>Fair Value</b>	
	<b>2007</b>	<b>2006</b>
Investments in University Managed Pools:		
Merged Pools	\$ 605,242	\$ 305,466
Active Cash Fund	207,253	392,318
Expendable Funds Pool	3,475	3,320
	<u>\$ 815,970</u>	<u>\$ 701,104</u>

**7. Property and Equipment**

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

	<b>2007</b>	<b>2006</b>
Land and improvements	\$ 25,729	\$ 25,729
Buildings and improvements	532,287	494,188
Equipment	264,892	219,008
	<u>822,908</u>	<u>738,925</u>
Less: Accumulated depreciation	(520,144)	(480,194)
Construction-in-progress	208,657	145,173
Property and equipment, net	<u>\$ 511,421</u>	<u>\$ 403,904</u>

Depreciation expense totaled \$44,934 and \$39,372 for the years ending August 31, 2007 and 2006, respectively, and is included in the consolidated statements of operations and changes in net assets.

During 2007, medical equipment acquired under capital leases totaled \$5,875 and were included in property and equipment in the consolidated balance sheet. Amortization expense under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets. Amortization expense totaled \$196 for the year ended August 31, 2007.

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(in thousands of dollars)

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**7. Property and Equipment (Continued)**

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. Capitalized interest expense net of capitalized investment income was \$2,562 and \$78 for the years ended August 31, 2007 and 2006, respectively.

**8. Long-Term Debt**

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

	<b>2007</b>	<b>2006</b>
1998 Series B Fixed Rate Bonds, payable in varying annual amounts through 2031, with an interest rate of 5%	\$ 170,775	\$ 174,185
2003 Series A Fixed Rate Bonds, payable in varying annual amounts from November 2007 through 2023, with interest rates ranging from 2% to 5%	96,310	100,000
2003 Series B, C and D Variable Rate Bonds, maturing in November, 2036, with an interest rate of 3.55% at August 31, 2007 and 3.20% at August 31, 2006	150,000	150,000
2006 Series A Variable Rate Bonds, maturing in November 2040, with an interest rate of 3.56% at August 31, 2007 and 3.23% at August 31, 2006	260,300	260,300
2006 Series B Variable Rate Bonds, maturing in November 2045, with an interest rate of 3.58% at August 31, 2007 and 3.33% at August 31, 2006	168,200	168,200
Promissory note, maturing in July 2014, with an interest rate of 7.03% at August 31, 2007	1,132	-
Total principal amounts	<u>846,717</u>	<u>852,685</u>
Unamortized original issue premium, net of discount	2,019	2,194
Current portion of long-term debt	<u>(8,033)</u>	<u>(7,100)</u>
Long-term portion, net of current portion	<u>\$ 840,703</u>	<u>\$ 847,779</u>

In March 2006, The California Health Facilities Financing Authority ("CHFFA") issued, on behalf of SHC, bonds in the aggregate principal amount of \$428,500. The 2006 bonds were comprised of \$260,300 of 2006 Series A Variable Rate Bonds that were issued as Series A-1, Series A-2, and Series A-3; and \$168,200 of 2006 Series B Variable Rate Bonds that were issued as Series B-1 and Series B-2.

The 2006 bonds, together with the 2003 bonds and 1998 bonds are collectively referred to as the "Revenue Bonds". The Revenue Bonds are a limited obligation of CHFFA and are payable solely from payments made by SHC. Payments of principal and interest on the bonds are collateralized by a pledge against the revenues of SHC. The Revenue 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.

In July 2007, SEROC entered into an unsecured promissory note of \$1,150 with a financial institution. The note bears an interest rate of 7.03% and matures on July 10, 2014.

## Stanford Hospital and Clinics and Subsidiaries

### Notes to Consolidated Financial Statements

(in thousands of dollars)

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#### 8. Long-Term Debt (Continued)

Principal payments on long-term debt including unsecured promissory notes are summarized below, assuming remarketing of the 2003 and 2006 Variable Rate Bonds:

2008	\$	8,033
2009		7,877
2010		8,713
2011		9,114
2012		9,011
Thereafter		<u>803,969</u>
	\$	<u>846,717</u>

The estimated fair value of the Revenue Bonds as of August 31, 2007 and 2006 was \$849,572 and \$861,306, respectively.

In 1998, SHC advance refunded its 1993 and 1995 bonds in the amount of \$111,014 by issuing the 1998 bonds. As of August 31, 2007 and 2006, \$39,725 and \$46,590, respectively, of advance refunded bonds, which are considered extinguished, remain outstanding.

As of September 1, 2002, SHC and LPCH were members of the Obligated Group (as defined in the Master Trust Indenture, the "Obligated Group"), established effective April 1, 2000, and they (the "Hospitals") were jointly and severally liable for the long-term debt outstanding under the Obligated Group's Master Trust Indenture. Effective March 11, 2003, LPCH withdrew from membership in the Obligated Group and SHC is the sole remaining member of the Obligated Group. SHC is contingently liable on certain LPCH obligations that were created prior to the withdrawal of LPCH from the Obligated Group. SHC is contingently obligated 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 SHC under which LPCH has agreed to reimburse SHC for any payments made on its behalf. As of August 31, 2007 and 2006, SHC is contingently liable for \$32,400 and \$33,600, respectively, of LPCH's obligations. Total debt outstanding under the Master Trust Indenture is in the aggregate principal amounts of \$877,985 and \$886,285 as of August 31, 2007 and 2006, respectively.

#### Interest Rate Swap Agreements

SHC has entered into various Fixed Rate Swap, Basis Swap and Forward Swap interest rate agreements with two financial institutions. The purpose of the interest rate swap agreements, also known as risk management or derivative instruments, is to reduce the effect of interest rate fluctuation on its variable rate bonds.

The Fixed Rate Swap agreements require SHC to pay a fixed interest rate 3.365% on the 2003 Variable Rate Bonds, 3.73% on the 2006 Series A Variable Rate Bonds and 3.63% on the 2006 Series B Variable Rate Bonds based on a notional amount and to receive a variable interest payment computed based on a percentage of the 30-day London Interbank Offered Rate ("LIBOR") based on the same notional amount. The notional amounts equal 100% of the amount outstanding on the 2003 Variable Rate Bonds and the 2006 Variable Rate Bonds.

The Basis Swap agreements provide for SHC to receive an interest payment based on a variable percent of LIBOR and pay an adjusting interest payment based on a percent of 30-day LIBOR.

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

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### 8. Long-Term Debt (Continued)

#### Interest Rate Swap Agreements (continued)

In addition in March 2006, SHC entered into Forward Swap agreements with two financial institutions that require SHC to pay a fixed rate of 3.81% and receive a variable interest payment based upon the 30-day LIBOR starting in November 2008. These forward swap agreements expire on November 15, 2031.

SHC remarkets its 2006 Series A2, A3, B1, B2 Variable Rate Bonds and the 2003 Variable Rate Bonds every 35 days, and the 2006 Series A1 Variable Rate Bonds every seven days, and the interest rate is established based upon the auction rate from the remarketing. Interest rate swaps based upon the 30-day LIBOR have been used to hedge interest rate fluctuations since derivative instruments based upon auction rates are not available and historically auction rates have generally moved similar to LIBOR.

The swap agreements on the 2003 Variable Rate Bonds expire on November 15, 2036. The swap agreements on the 2006 Series A Variable Rate Bonds and the 2006 Series B Variable Rate Bonds expire on November 15, 2040 and November 15, 2016, respectively.

The notional amounts under the agreements were \$749,400 at August 31, 2007 and 2006. The swap agreements can be canceled at anytime by SHC by settling the contracts at the current fair market value.

The swap agreements for each institution are recognized on the consolidated balance sheets at their fair value. The fair market values of the interest rate swap agreements that were recorded as an asset of \$3,625 and \$4,488 are included in other non-current assets on the consolidated balance sheets as of August 31, 2007 and 2006, respectively.

The Fixed Rate Swap and the Forward Swap agreements have been designated as a cash flow hedge under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"). SHC measures hedge effectiveness using the cash flow method by comparing the present value of the cumulative change in the expected future cash flows on the variable leg of the Fixed Rate Swap with the present value of the cumulative change in the expected future interest cash flows on the 2003 and 2006 Variable Rate Bonds. The changes in the fair market value that have been deemed effective have been recorded as a change to unrestricted net assets, in the amounts of \$2,708 and \$9,069 for the years ended August 31, 2007 and 2006, respectively. The accumulated gains in the amount of \$438 and \$2,270 were excluded from excess of revenues over expenses as of August 31, 2007 and 2006, respectively. The ineffective portion of \$396 and \$1,056 has been recorded in other expense which is included in excess of revenues over expenses in the consolidated statements of operations and changes in net assets for the years ended August 31, 2007 and 2006, respectively.

The Basis Swap agreements have not been designated as a hedge under SFAS No. 133 and as such the change in fair value as well as the net cash payments or receipts under the interest rate swap agreements are recorded as an increase of \$906 and \$925 in other expense of the consolidated statements of operations and changes in net assets for the years ended August 31, 2007 and 2006, respectively.

Interest expense includes net cash receipts under the Fixed Rate Swap agreements of \$975 for the year ended August 31, 2007 is included in other expense of the consolidated statements of operations and changes in net assets. Interest expense includes net cash payments under the Fixed Rate Swap agreements of \$203 for the year ended August 31, 2006 is included in other expense of the consolidated statements of operations and changes in net assets.

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

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### 9. Retirement Plans

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

For fiscal year 2007, SHC adopted SFAS 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. See note 2 for the incremental effects of the initial adoption of SFAS 158 on SHC's consolidated balance sheet as of August 31, 2007.

#### Defined Contribution Retirement Plan

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees excluding LPCH leased employees (see Note 11) totaling \$31,392 and \$26,212 for the years ended August 31, 2007 and 2006, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

#### Defined Benefit Pension Plan

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

As of August 31, 2004, SHC assumed the pension liability of the employees leased to LPCH. SHC received \$2,527 in cash during the year ended August 31, 2005, which represented the pension liability as of August 31, 2004. In addition, SHC received \$440 and \$373 in cash for the years ending August 31, 2007 and 2006, respectively, which represented the current year pension expense related to LPCH leased employees.

The funded status is measured as the difference between the projected benefit obligation and the fair value of plan assets. Under the transition provisions of SFAS 158, actuarial gains or losses and prior-service costs or credits that have not yet been included in net periodic benefit expense as of the adoption date are recognized as components of the ending balance of minimum pension liability. The minimum pension liability decreased by \$6,909 for the year ended August 31, 2007, with \$3,316 of the decrease attributable to the adoption of SFAS 158. The decrease in minimum pension liability is included on the consolidated statements of operations and changes in net assets for the year ended August 31, 2007. The respective decrease was \$31,657 for the year ended August 31, 2006.

#### Postretirement Medical Benefit Plan

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

The funded status is measured as the difference between the accumulated postretirement benefit obligation and the fair value of plan assets. Under the transition provisions of SFAS 158, actuarial gains or losses and prior-service costs or credits that have not yet been included in net periodic benefit expense as of the adoption date are recognized as components of the ending balance of minimum postretirement medical benefit liability. The minimum postretirement medical benefit liability decreased by \$8,297 for the year ended August 31, 2007, with the full decrease attributable to the adoption of SFAS 158. The decrease in minimum postretirement medical benefit liability is included on the consolidated statements of operations and changes in net assets for the year ended August 31, 2007.

**Stanford Hospital and Clinics and Subsidiaries**  
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**9. Retirement Plans (Continued)**

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2007 and 2006, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH leased employees. The total Postretirement Medical Benefit Liability was \$65,732 and \$71,930 as of August 31, 2007 and 2006, respectively. SHC recorded a liability in the self-insurance reserves in the consolidated balance sheets of \$55,202 and \$62,633 as of August 31, 2007 and 2006, respectively, which represents the liability for SHC employees excluding LPCH leased employees.

The change in pension and other post-retirement plan assets and the related change in benefit obligations, using a measurement date of June 30, as of and for the years ended August 31 are as follows:

	<b>Staff Pension Plan Obligations</b>		<b>Postretirement Medical Benefits Net of Medicare Part D Subsidy</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 135,408	\$ 118,545	\$ -	\$ -
Actual return on plan assets	22,842	13,255	-	-
Employer contributions	1,152	10,690	3,344	3,982
Participants contributions	-	-	680	525
Benefits paid	(7,328)	(7,082)	(4,024)	(4,507)
Fair value of plan assets at end of year	<u>\$ 152,074</u>	<u>\$ 135,408</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 152,559	\$ 175,843	\$ 68,497	\$ 67,719
Service cost	1,720	2,144	1,660	1,954
Interest cost	9,749	9,071	4,257	3,298
Participants contributions	-	-	680	525
Benefits paid	(7,328)	(7,082)	(4,024)	(4,507)
Actuarial (gain) loss	868	(27,417)	(4,731)	(492)
Benefit obligation at end of year	<u>\$ 157,568</u>	<u>\$ 152,559</u>	<u>\$ 66,339</u>	<u>\$ 68,497</u>

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**9. Retirement Plans (Continued)**

	<b>Staff Pension Plan Obligations</b>		<b>Postretirement Medical Benefits Net of Medicare Part D Subsidy</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Amounts recognized in consolidated balance sheets:</b>				
Plan assets minus benefit obligation	\$ (5,494)	\$ (17,151)	\$ (66,339)	\$ (68,497)
Contributions made from July 1 to August 31	4,262	-	607	705
Unrecognized prior service cost	-	-	-	(4,253)
Unrecognized loss	-	8,652	-	115
Net benefit liability recognized	<u>\$ (1,232)</u>	<u>\$ (8,499)</u>	<u>\$ (65,732)</u>	<u>\$ (71,930)</u>

	<b>Staff Pension Plan Obligations</b>		<b>Postretirement Medical Benefits Net of Medicare Part D Subsidy</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Amounts recognized in consolidated balance sheets (after SFAS 158) consist of:</b>				
Current liabilities	\$ -	N/A	\$ (4,365)	N/A
Noncurrent liabilities	(1,232)	N/A	(61,367)	N/A
Net benefit liability recognized	<u>\$ (1,232)</u>	<u>\$ -</u>	<u>\$ (65,732)</u>	<u>\$ -</u>

<b>Amounts recognized in accumulated other comprehensive income:</b>				
Prior service credit	\$ -	N/A	\$ (3,419)	N/A
Net gain	(3,316)	N/A	(4,627)	N/A
Accumulated other comprehensive income	<u>\$ (3,316)</u>	<u>\$ -</u>	<u>\$ (8,046)</u>	<u>\$ -</u>

No estimated net gain and prior service credit for the staff pension plan will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year. The estimated net gain and prior service credit for the postretirement medical plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$448 and \$834, respectively.

Total benefit obligation at the end of the year for Postretirement Medical Benefits excluding Medicare Part D subsidiary after the adoption of SFAS 158 increased to \$76,451.

The accumulated benefit obligation for the defined benefit pension plan was \$152,418 and \$147,500 as of June 30, 2007 and 2006, respectively.

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**9. Retirement Plans (Continued)**

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

	<b>Staff Pension Plan Obligations</b>	
	<b>2007</b>	<b>2006</b>
Service cost	\$ 1,720	\$ 2,144
Interest cost	9,749	9,071
Expected return on plan assets	(10,061)	(9,574)
Amortization of prior service cost	-	-
Recognized net actuarial loss	55	2,208
Total net periodic benefit cost	<u>\$ 1,463</u>	<u>\$ 3,849</u>

	<b>Postretirement Medical Benefits</b>			
	<b>Net of Medicare Part D Subsidy</b>		<b>Excluding Medicare Part D Subsidy</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Service cost	\$ 1,660	\$ 1,954	\$ 1,813	\$ 2,234
Interest cost	4,257	3,298	4,888	3,916
Expected return on plan assets	-	-	-	-
Amortization of prior service cost	(834)	(834)	(834)	(834)
Recognized net actuarial loss	11	60	689	1,174
Total net periodic benefit cost	<u>\$ 5,094</u>	<u>\$ 4,478</u>	<u>\$ 6,556</u>	<u>\$ 6,490</u>

**Actuarial Assumptions**

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

	<b>Staff Pension Plan Obligations</b>		<b>Postretirement Medical Benefits</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Weighted-average assumptions				
Discount rate	6.47%	6.53%	6.35%	6.42%
Rate of compensation increase	5.50%	5.50%	N/A	N/A

**Stanford Hospital and Clinics and Subsidiaries**  
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**9. Retirement Plans (Continued)**

**Actuarial Assumptions (continued)**

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2007	2006	2007	2006
Weighted-average assumptions				
Discount rate	6.53%	5.25%	6.42%	5.00%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	5.50%	5.50%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. The historical return of the plan assets for the past ten years ending June 30, 2007 averaged 9.1%. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The evaluation of the historical returns and the future expected returns resulted in the use of 8.0% as the assumption for the expected return on plan assets.

To determine the accumulated post-retirement benefit obligation as of August 31, 2007, a 9.5% annual rate of increase in the pre-65 per capita costs and 11.5% annual rate of increase in the post-65 prescription drug per capita costs, and 9.0% rate of increase in the post-65 per capita cost of all other medical benefits was assumed for 2007, declining gradually to 5% by 2013 for pre-65 per capita costs, 2014 for post-65 prescription drug per capita cost, and 2011 for post-65 per capita costs of all other medical benefits, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post-retirement benefit obligation by \$2,063 and the aggregate service and interest cost by \$185. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by \$1,858 and the aggregate service and interest cost by \$165.

**Plan Assets**

SHC's staff pension plan weighted-average asset allocations as of the measurement date June 30, 2007 and 2006, respectively by asset category are as follows:

<u>Asset Category</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Equity securities	68%	67%
Debt securities	22%	22%
Real estate	10%	11%
	100%	100%

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

(in thousands of dollars)

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### 9. Retirement Plans (Continued)

#### Plan Investments

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

The allowable asset mix range and target asset allocations are:

<u>Asset Category</u>	<u>Acceptable Range</u>	<u>Target Allocation</u>
Equity securities	40% to 85%	62%
Debt securities	20% to 50%	30%
Real Estate	0% to 15%	8%
Cash equivalents	0% to 40%	< 1%

Appropriate investments include common, preferred and convertible equities of domestic and foreign companies, mutual and commingled trust funds, top tier commercial paper, certificates of deposit, and fixed income securities whose assets are rated investment grade or better.

Financial futures and options on futures traded on exchanges are also permitted for hedging purposes. Prohibited investments include commodities, unregistered securities, short sales and interest rate swaps. All assets must have readily ascertainable market value and be easily marketable.

The equity portfolio will generally be invested with minimal emphasis on market timing and broadly diversified with not less than 90% of the market value in the portfolio listed on the New York or American Stock Exchanges or traded on NASDAQ. With certain aggregate market value limitations, foreign-based common stocks, real estate investment trusts and American Depository Receipts may also be included to further diversify the portfolio.

Fixed income investments may consist of U.S. government, U.S. government guaranteed, and U.S. government agency securities. Corporate bond holdings must have an investment grade credit rating at the time of purchase and during the holding period. No more than 20% of the total fixed income portfolio may be invested in foreign government, agency and high grade corporate bonds of countries with minimum long term local currency ratings of A by Moody's or Standard and Poor's.

Real estate investments shall be diversified geographically by property type and/or by property size. No more than 5% of real estate holdings may be invested at any time in a single property.

#### Expected Contributions

SHC does not expect to contribute to its Staff Pension Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2008. SHC expects to contribute \$4,501 to its Postretirement Medical Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2008.

**Stanford Hospital and Clinics and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
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**9. Retirement Plans (Continued)**

**Expected Benefit Payments**

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

	Pension Benefits	Postretirement Medical Benefits	
		Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2008	\$ 7,013	\$ 4,501	\$ 4,854
2009	7,520	4,783	5,201
2010	8,085	5,073	5,560
2011	8,684	5,438	5,991
2012	9,393	5,773	6,396
2013 - 2017	57,544	31,958	36,141

**10. Temporarily and Permanently Restricted Net Assets**

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

	2007	2006
Plant replacement and expansion	\$ 31,946	\$ 6,389
Indigent care and other	14,080	11,655
Education	2,793	2,898
Clinical services	2,491	1,787
	\$ 51,310	\$ 22,729

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

	2007	2006
Clinical services	\$ 3,000	\$ 2,000
Education	1,235	1,235
Plant replacement and expansion	920	-
Indigent care and other	356	356
	\$ 5,511	\$ 3,591

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

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### 11. Related-Party Transactions

#### Transactions with the University and SoM

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

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

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

Services provided by the SoM include physician services that benefit SHC, such as emergency room coverage, physicians providing medical direction to SHC, and physicians providing service to the clinical practice, which are covered by the Professional Services Agreement ("PSA"). Such expenses are reflected as purchased services in the consolidated statements of operations and changes in net assets, and total \$207,993 and \$187,119 for the years ended August 31, 2007 and 2006, respectively.

Services provided by the SoM which relate to the pediatric and obstetric practices were \$48,151 for the year ended August 31, 2006. For the year ended August 31, 2007, these services were provided to LPCH in accordance with the LPCH Professional Services Agreement (the "LPCH PSA").

Services provided by the University include telecommunications, transportation, utilities, blood products, and certain administrative services, which consist of legal, internal audit, and risk management. Total costs incurred by SHC were \$64,427 and \$54,515 for the years ended August 31, 2007 and 2006, respectively, and are reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC paid service fees to the University in the amount of \$4,457 and \$4,528 for the years ended August 31, 2007 and 2006, respectively. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements, parking garages and generators and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 26 years total \$60,172. Annual service fees range from approximately \$4,375 for the year ending August 31, 2008 to \$455 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, and security. Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled \$22,333 and \$20,544 for the years ended August 31, 2007 and 2006, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled \$3,992 and \$4,507 for the years ended August 31, 2007 and 2006, respectively, and is reflected in the statements of operations and changes in net assets as net patient service revenue and recoveries.

# Stanford Hospital and Clinics and Subsidiaries

## Notes to Consolidated Financial Statements

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### 11. Related-Party Transactions (Continued)

#### **Transactions with the University and SoM (continued)**

During the year ended August 31, 2004, SHC paid \$5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The remaining amount included in other assets in the consolidated balance sheets is \$4,782 and \$4,889 as of August 31, 2007 and 2006, respectively.

During the fiscal year ended August 31, 2006, the University transferred \$764 to SHC related to contributions from donors to the University that were restricted for the construction of SHC's cancer center. For the years ended August 31, 2007 and 2006, SHC transferred \$6,776 and \$18,864 to the University related to academic grants.

#### **Transactions with LPCH**

**Shared Services** - SHC and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled \$21,241 and \$17,716 for the years ended August 31, 2007 and 2006, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

**Purchased Services** - SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled \$60,606 and \$50,649 for the years ended August 31, 2007 and 2006, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

**Other Services** - Other services provided by SHC include services provided by interns and residents, billings and collections, building maintenance and utilities. Reimbursement of these services totaled \$20,337 and \$12,839 for the years ended August 31, 2007 and 2006, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries. SHC also leased 2,540 and 2,387 full time and part time employees to LPCH during the years ended August 31, 2007 and 2006, respectively.

**Pediatrics Patient Accounts Receivable** - Effective September 1, 2006, LPCH and the University entered into the LPCH PSA pursuant to which the University assigned to LPCH the right to all revenues related to pediatric and obstetric practices of SoM faculty. Prior to September 1, 2006, the University had assigned to SHC the right to all revenue related to pediatric and obstetric practices of SoM faculty. As part of the LPCH PSA, LPCH assumed the right to all pediatric and obstetric revenues after September 1, 2006. SHC transferred net assets of \$14,352 to LPCH as of September 1, 2006 in connection with this transfer agreement.

**Stanford Hospital and Clinics and Subsidiaries**  
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**12. Operating and Capital Leases**

SHC leases various equipment and facilities under non-cancelable lease agreements expiring at various dates. Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the years ended August 31, 2007 and 2006 was \$28,337 and \$24,286, respectively.

Net minimum future lease payments under all non-cancelable operating leases and capital lease obligations for periods subsequent to August 31, 2007 are as follows:

Year Ending August 31,	Operating	Capital
2008	\$ 22,283	\$ 1,261
2009	20,218	1,261
2010	16,502	1,261
2011	13,207	1,261
2012	11,242	841
Thereafter	54,671	-
	<u>\$ 138,123</u>	5,885
Less amount representing interest		<u>(376)</u>
		5,509
Current portion		<u>(1,121)</u>
Long-term portion, net of current portion		<u>\$ 4,388</u>

As of August 31, 2007, capital lease obligations totaled \$5,509 of which \$1,121 is included in accounts payable and accrued liabilities on the consolidated balance sheet. The remaining capital lease obligation of \$4,388 is included in other long term liabilities on the consolidated balance sheet.

SHC leases space in its medical office building to others under noncancelable operating lease arrangements. Future minimum base rentals to be received under these leases in place as of August 31, 2007 are as follows:

Year Ending August 31,	
2008	\$ 1,642
2009	1,551
2010	602
2011	112
2012	112
Thereafter	168
	<u>\$ 4,187</u>

**Stanford Hospital and Clinics and Subsidiaries**  
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**13. 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 two irrevocable letters of credit with a bank in the amount of \$22,014 which are required as security for the workers' compensation self-insurance arrangement. No amounts have been drawn on these letters of credit as of August 31, 2007.

At August 31, 2007, SHC had contractual obligations of approximately \$158,075 primarily related to the construction of the Stanford Outpatient Center in Redwood City and the upgrade of the clinical information systems.

Effective September 1, 2004, SHC entered into a seven year agreement with Perot Systems Health Care Services LLC ("Perot"), pursuant to which Perot will provide certain information technology services to SHC. Under the terms of the agreement, SHC will be charged a fixed annual service charge plus expenses, payable monthly, for core services as defined, and additional fees plus expenses for special projects. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately \$38,700 for the year ending August 31, 2008, decreasing annually thereafter to approximately \$37,600 for the year ending August 31, 2011. SHC has certain rights to reduce the scope of services to be purchased and to terminate the agreement early for a termination fee. The amount of the termination fee depends on when the right to terminate is exercised and reduces annually, ranging from \$11,400 for the year ending August 31, 2008 to \$6,000 for the year ending August 31, 2010.

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.

The percentage of SHC employees excluding LPCH leased employees that are covered by collective bargaining arrangements is approximately 39%. There are currently no expired agreements.

**14. Functional Expenses**

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

	<b>2007</b>	<b>2006</b>
Patient services	\$ 1,335,291	\$ 1,275,744
Management and general	110,405	93,407
Fundraising	<u>2,008</u>	<u>1,989</u>
Total functional expenses	<u>\$ 1,447,704</u>	<u>\$ 1,371,140</u>

## **APPENDIX C**

### **SUMMARY OF PRINCIPAL DOCUMENTS**

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## SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture of Trust, dated as of December 1, 1990 (as supplemented and amended, the "Master Indenture"), between Stanford University Hospital, currently known as Stanford Hospital and Clinics (the "Corporation"), First Interstate Bank, LTD., predecessor trustee to BNY Western Trust Company, predecessor trustee to The Bank of New York Trust Company, N.A., as trustee (the "Master Trustee"), the Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008 (the "Supplemental Master Indenture"), between the Corporation and the Master Trustee, the Indenture, dated as of June 1, 2008 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee, and the Loan Agreement, dated as of June 1, 2008 (the "Loan Agreement"), between the Authority and the Corporation. This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement and is qualified in its entirety by reference to the full terms of the Master Indenture, the Supplemental Master Indenture, the Indenture and the Loan Agreement. All capitalized terms used and not otherwise defined in this Official Statement have the meanings assigned to such terms in the Indenture or, if not set forth in the Indenture, in the Master Indenture.

## DEFINITIONS OF CERTAIN TERMS

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

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

**Accountant** means, for purposes of the Master Indenture, any firm of nationally recognized independent certified public accountants selected by the 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 Indebtedness shall not include Obligations issued to secure Master Indenture Obligation Payments.

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

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

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

**Agreement or Loan Agreement** means that certain Loan Agreement, dated as of June 1, 2008, 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.

**Alternate Credit Facility** means a Credit Facility delivered to the Trustee or the Tender Agent, as applicable, in accordance with the provisions of the Loan Agreement which replaces a Credit Facility then in effect.

**Alternate Liquidity Facility** means a Liquidity Facility delivered to the Trustee or the Tender Agent, as applicable, in accordance with the provisions of the Loan Agreement which replaces a Liquidity Facility then in effect.

**Alternate Rate** means, on any Business Day, the SIFMA Municipal Swap Index or, if the SIFMA Municipal Swap Index is no longer published, an index or rate agreed upon by the Authority and the Remarketing Agent for the applicable Series of Bonds, but in no event a rate in excess of the Maximum Interest Rate.

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

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

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

**Authorized Denomination** means with respect to a Series of Bonds in the Daily Rate and Weekly Rate, \$100,000 and any larger denomination constituting an integral multiple of \$5,000, and means with respect to a Series of Bonds in the Long Term Rate, \$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.

**Available Moneys** means, (a) if a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds, (i) moneys drawn under the Credit Facility which at all times since their receipt by the Trustee or the Tender Agent were held in a separate segregated account or accounts or subaccount or subaccounts in which no

moneys (other than those drawn under the Credit Facility) were at any time held, (ii) moneys which have been paid to the Trustee or the Tender Agent by the Corporation and have been on deposit with the Trustee or the Tender Agent for at least one hundred twenty-four (124) days (or, if paid to the Trustee or the Tender Agent by an "affiliate," as defined in Section 101(2) of the Bankruptcy Code, of the Corporation, three hundred sixty-six (366) days) during and prior to which no Event of Bankruptcy shall have occurred, (iii) any other moneys, if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each Rating Agency then rating the Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy, and (iv) investment earnings on any of the moneys described in clauses (i), (ii) and (iii) of this definition; and (b) if a Credit Facility in the form of a letter of credit is not in effect with respect to a Series of Bonds, "Available Moneys" means any moneys deposited with the Trustee or the Tender Agent.

**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.

**Bankruptcy Code** means Title 11 of the United States Code, as amended, and any successor statute.

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

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

**Bonds** means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, 2008 Series A-2, 2008 Series A-3, 2008 Series B-1 and 2008 Series B-2 authorized by, and at any time Outstanding pursuant to, the Indenture..

**Bond Trustee** or **Trustee** means Wells Fargo 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.

**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 or, as and to the extent applicable, the Principal Office of the applicable Credit Facility Provider, the applicable Liquidity Facility Provider, the applicable Remarketing Agent or the Tender Agent is located are required or authorized by law to remain closed, or (c) a day on which the New York Stock Exchange or the Securities Depository is closed.

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

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

**Commercial Paper Mode** means, with respect to a Series of Bonds, the period with respect to such Series of Bonds when Commercial Paper Rates are in effect.

**Commercial Paper Rate** means, with respect to any Bond in a Commercial Paper Mode, the interest rate determined for such Bond during each Commercial Paper Rate Period which is established pursuant to the provisions of the Indenture.

**Commercial Paper Rate Period** means, with respect to any Bond in a Commercial Paper Mode, each Interest Period established pursuant to the provisions of the Indenture, which shall be not less than one (1) calendar day nor more than two hundred seventy (270) calendar days, during which such Bond shall bear interest at a Commercial Paper Rate.

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

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

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

**Continuing Disclosure Agreement** means that certain Continuing Disclosure Agreement, dated the Issue Date, between the Corporation and Wells Fargo 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.

**Conversion** means, with respect to any Series of Bonds, any conversion of such Series of Bonds from one Interest Rate Mode to another Interest Rate Mode in accordance with the terms of the Indenture.

**Conversion Date** means the date on which any Conversion becomes effective.

**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.

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

**Credit Facility** means, with respect to a Series of Bonds, any insurance, letter of credit or other instrument or agreement which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, bank or other financial institution, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Facility for such Series of Bonds, such Alternate Credit Facility.

**Credit Facility Fund** means, a fund by that name established pursuant to the provisions of the Indenture.

**Credit Facility Provider** means, with respect to a Series of Bonds, the bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the entities obligated, under) a Credit Facility then in effect with respect to such Series of Bonds, and, upon the effectiveness of an Alternate Credit Facility for such Series of Bonds, shall mean the bank, insurance company, pension fund or other financial institution or financial institutions then party to the Credit Facility.

**Credit Facility Provider Failure** means a failure of a Credit Facility Provider to pay a properly presented and conforming draw or request for advance under the Credit Facility or the filing or commencement of any bankruptcy or insolvency proceedings by or against a Credit Facility Provider or a Credit Facility Provider shall declare a moratorium on the payment of its unsecured debt obligations or shall repudiate the Credit Facility.

**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.

**Daily Mode** means, with respect to a Series of Bonds, the period with respect to such Series of Bonds when Daily Rates are in effect.

**Daily Rate** means, for each Interest Period within a Daily Mode, the interest rate borne by a Series of Bonds which is established pursuant to the provisions of the Indenture.

**Daily Rate Period** means, with respect to a Series of Bonds, each Interest Period with respect to such Series of Bonds which is established pursuant to the provisions of the Indenture.

**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 its successors and assigns.

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

**Eligible Bonds** means any Bonds other than Credit Facility Bonds, Liquidity Facility Bonds or Bonds owned by, for the account of, or on behalf of, the Authority or the Corporation or any other Member of the Obligated Group or any affiliate of any of 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 Bankruptcy** means any of the following events:

(1) the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture, Obligation No. 19 or any agreement entered into in connection with a Credit Facility, or an "affiliate" of the Corporation as defined in Section 101(2) of the Bankruptcy Code) or the Authority shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Corporation (or such other Person) or the Authority or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(2) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture, Obligation No. 19 or any agreement entered into in connection with a Credit Facility, or an "affiliate" of the Corporation as defined in Section 101(2) of the Bankruptcy Code) or the Authority in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding up, or composition or adjustment of debts, of the Corporation (or any such other Person) or the Authority, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Person) or the Authority or of all or any substantial part of their respective property, or (c) similar relief in respect of the Corporation (or any such other Person) or the Authority under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

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

**Expiration Date** means (i) the date upon which a Credit Facility or a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date by virtue of extensions of a particular Credit Facility or Liquidity Facility, from time to time) in accordance with its terms, including, without limitation, termination upon the effective date of an Alternate Credit Facility or Alternate Liquidity Facility delivered in accordance with the provisions of the Loan Agreement, and (ii) the date upon which a Credit Facility or a Liquidity

Facility terminates following voluntary termination by the Corporation pursuant to the provisions of the Loan Agreement.

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

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

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

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

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

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

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

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

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

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

**Gross Revenues** means all revenues, income, receipts and money now existing or hereafter received by each Member, including (a) gross revenues collected from its operations and possession of and pertaining to its

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

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

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

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

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

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

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

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

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

**Indebtedness** means: (1) any Guaranty (other than any Guaranty by any Member of Indebtedness of any other Member); and (2) any indebtedness or obligation of any Member of the Obligated Group for borrowed money, as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, rental obligations under leases that are considered capital leases under generally accepted accounting principles, except for obligations of a Member to another Member; provided,

however, that if more than one Member shall have incurred or assumed a Guaranty of a Person other than a Member, or if more than one Member shall be obligated to pay any obligation, for purposes of computations or calculations under the Master Indenture such Guaranty or obligations shall be included only one time. Interest Rate Exchange Agreements and Qualified Financial Products Agreements shall not constitute Indebtedness.

**Indenture** means that certain Indenture, dated as of June 1, 2008, 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 Rate Mode** or **Mode** means for any Series of Bonds any Daily Mode, Weekly Mode, Commercial Paper Mode, Long Term Rate Mode or Auction Mode.

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

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

- (1) United States Government Obligations;
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: (a) Export-Import Bank; (b) Rural Economic Community Development Administration; (c) U.S. Maritime Administration; (d) Small Business Administration; (e) U.S. Department of Housing & Urban Development (PHAs); (f) Federal Housing Administration; and (g) Federal Financing Bank;
- (3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (a) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); (b) obligations of the Resolution Funding Corporation (REFCORP); and (c) senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal fund and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than three hundred sixty (360) calendar days after the date of purchase;

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

(6) Investments in money market funds rated "AAAm" or "AAm-G" or better by S&P;

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

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

**Issue Date** means June 2, 2008.

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

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

**Liquidity Facility** means a line of credit, letter of credit, standby bond purchase agreement or similar liquidity facility issued by a Liquidity Facility Provider which, by its terms, provides for the payment of the Purchase Price of a Series of Bonds tendered for purchase and not remarketed, delivered to the Tender Agent in accordance with the provisions of the Loan Agreement, or, in the event of the delivery of an Alternate Liquidity Facility, such Alternate Liquidity Facility. The Irrevocable Transferable Direct Pay Letter of Credit issued by Bank of America, N.A. pursuant to that certain Reimbursement, Credit and Security Agreement, dated as of June 1, 2008, between the Corporation and Bank of America, N.A. functions as the initial Liquidity Facility for the 2008 Series A-2 Bonds and also functions as the initial Credit Facility for the 2008 Series A-2 Bonds.

**Liquidity Facility Account** means an account by that name in a Purchase Fund established pursuant to the provisions of the Indenture.

**Liquidity Facility Bonds** means any Bond purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the Liquidity Facility provided with respect to such Bond.

**Liquidity Facility Provider** means, with respect to a Series of Bonds, the bank, savings and loan association, insurance company, pension fund or other financial institution or any for profit corporation, nonprofit corporation or trust, including any educational institution, or combination thereof, which provides (or having primary obligation or acting as agent for the entities obligated, under) a Liquidity Facility then in effect with respect to a Series of Bonds.

**Liquidity Facility Rate** means the rate per annum, if any, specified in the Liquidity Facility as applicable to Liquidity Facility Bonds.

**Loan Agreement** or **Agreement** means that certain Loan Agreement, dated as of June 1, 2008, 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 Conversion Date** means each date on which the Bonds of any Series begin to bear interest at a Long Term Rate pursuant to the provisions of the Indenture.

**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).

**Long Term Rate** means, with respect to a Series of Bonds, an interest rate on such Series of Bonds which is established pursuant to the provisions of the Indenture.

**Long Term Rate Mode** means, with respect to each Series of Bonds, each period with respect to such Series of Bonds when a Long Term Rate is in effect.

**Long Term Rate Period** means, with respect to a Series of Bonds, each Interest Period established by the Corporation pursuant to the provisions of the Indenture and beginning on, and including, as applicable, the Issue Date for such Series of Bonds or the Long Term Conversion Date for such Series of Bonds and ending on, and including, the day preceding the last Interest Payment Date for such Long Term Rate Period.

**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 Credit/Liquidity Tender** means the mandatory tender of Bonds pursuant to the provisions of the Indenture upon receipt by the Trustee of written notice from a Credit Facility Provider or a Liquidity Facility Provider, as applicable, that: (i) an event with respect to the Credit Facility or the Liquidity Facility, as applicable, has occurred which requires or gives such Credit Facility Provider or Liquidity Facility Provider the option to cause a mandatory tender of the Bonds of the applicable Series or the option to terminate such Credit Facility or Liquidity Facility upon notice and directing the Tender Agent to call Bonds of the applicable Series for mandatory tender; or (ii) the amount of an interest drawing under a Credit Facility will not be reinstated and directing the Tender Agent to call the Bonds of the applicable Series for mandatory tender. Mandatory Credit/Liquidity Tender shall not include circumstances, if any, where a Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

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

**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, predecessor trustee to The Bank of New York Trust Company, N.A., as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

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

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

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

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

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

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

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

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

(f) if moneys or Government Obligations have been deposited irrevocably with a trustee in an amount, together with earnings thereon, sufficient to pay all or a part of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall be excluded from the calculation of Maximum Annual Debt Service.

**Maximum Interest Rate** means with respect to all Bonds of any Series in the Daily Rate, the Weekly Rate, the Commercial Paper Rate and the Long-Term Rate, 12% per annum; provided, however, that the Maximum Interest Rate shall not exceed the maximum interest rate permitted by law from time to time.

**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.

**Mode or Interest Rate Mode** means for any Series of Bonds any Daily Mode, Weekly Mode, Commercial Paper Mode, Long Term Rate Mode or Auction Mode.

**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 a Member of, and has not withdrawn from, the Obligated Group, in each case pursuant to the terms of the Master Indenture.

**Obligated Group Representative** means the Corporation or such other Member (or Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

**Obligation** means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, loan agreements, leases, notes, reimbursement agreements, Interest rate Exchange agreements or Qualified Financial Products Agreements. Reference to a Series of Obligations or to Obligations of a Series shall mean Obligations or Series of Obligations issued pursuant to a single Related Supplement.

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

**Obligation No. 19** means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 19.

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

**Opinion of Bond Counsel**, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

**Opinion of Counsel**, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Indenture or the Loan Agreement, means a written opinion of counsel (who may be counsel for the Authority) 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; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been executed and delivered by the Trustee pursuant to the provisions of the Indenture; and (4) Bonds paid pursuant to the provisions of the Indenture relating to mutilated, lost, destroyed or stolen Bonds.

**Outstanding**, when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than: (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation; (b) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; (c) any Obligation held by any Member of the Obligated Group; and (d) Indebtedness deemed paid and no longer outstanding pursuant to the terms of the Master Indenture; provided, however, that if two or more obligations that constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit that secures such Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation that produces the greater amount of Debt Service to be included in the calculation of such covenants. Any Obligation relating to an Interest Rate Exchange Agreement or Qualified Financial Products Agreement shall be deemed to be Outstanding under the Master Indenture equally and ratably with all other Obligations Outstanding under the Master Indenture and for consideration in applying the provisions of Article VII of the Master Indenture regarding defeasance and shall not be entitled to exercise any rights under the Master Indenture except as may be set forth in the Related Supplement pertaining thereto as provided in Section 2.02 of the Master Indenture.

**Permitted Encumbrances** means and includes:

- (a) Any judgment lien or notice of pending action against any Member so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;
- (b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens

on any Property for taxes, assessment, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, that are not due and payable or that are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than 60 days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property that do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; and (v) to the extent that it affects title to any Property, the Master Indenture;

(c) Any Lien described in Exhibit A of the Master Indenture that is existing on the date of execution thereof, provided that no such Lien or the amount of Indebtedness secured thereby (other than Liens described in clause (b) of this definition) may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(d) Any Lien in favor of the Master Trustee securing all Obligations (other than Non-Recourse Indebtedness) on a parity basis;

(e) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits that any Member is required to maintain with the bank in question;

(g) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(h) Any Lien on the proceeds of Indebtedness in favor of the trustee with respect to such Indebtedness prior to the application of such proceeds;

(i) Liens on moneys deposited by patients or others with any Member as security for or as prepayment for the cost of patient care;

(j) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the fair market value of such Property;

(k) Statutory rights of the United States of America by reason of federal funds made available under 92 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(l) Liens securing Non-recourse Indebtedness;

(m) Liens on Property acquired by a Member if an Officer's Certificate is delivered to the Master Trustee certifying that (i) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than a Member prior to the acquisition of such Property by a Member, and (ii) the Lien was created prior to the decision of the Member to acquire the Property and was not created for the purpose of enabling a Member to avoid the limitations as set forth in the Indenture on creation of Liens on Property of the Obligated Group;

(n) Liens resulting from a Person's becoming a Member pursuant to the provisions of the Master Indenture or from a consolidation, merger or acquisition of assets pursuant to the provisions of the Master Indenture;

(o) Liens on accounts receivable and the proceeds thereof, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member selling the same; and, provided, further, that immediately following the creation of such Lien, the aggregate amount of accounts receivable subject to all such Liens does not exceed 25% of the amount of all of the accounts receivable of the Obligated Group and all transactions must be at fair market value;

(p) Leases that relate to Property of a Member, as lessor, that is of a type that is customarily the subject of such leases, such as office space for physicians, health care and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments; any leases entered into in accordance with the provisions of the Master Indenture; leases, licenses or similar rights existing as of the date of the initial execution and delivery of the Master Indenture to use Property owned on such date by any Person who was a Member on such date, and any renewals and extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Member is lessee, licensee or the equivalent thereof;

(q) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Member;

(r) Liens created on Property in connection with the sale/leaseback or lease/leaseback financing of such Property, provided that a first mortgage lien on such Property satisfying the requirements of the Master Indenture is granted in connection therewith;

(s) Any other Lien on Property provided that:

(i) the Current Value of all Property encumbered by all Liens permitted by this clause (s) does not exceed 10% of the Current Value of all Property of the Obligated Group at the time of creation of such Lien; or

(ii) the Book Value of all Property encumbered by all Liens permitted by the this clause (s) does not exceed 10% of the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iii) the principal amount of Indebtedness secured by all Liens permitted by this clause (s) does not exceed 10% of the lesser of the Current Value and the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iv) after giving effect to all Liens permitted by this clause (s), the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the incurrence of such Lien; and

(t) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease or the Children's Agreement.

Notwithstanding any other provision of the Master Indenture to the contrary, for so long as any Bond remains Outstanding, the sum of all Liens permitted in clauses (l), (m), (n), (o), (s) and (t) may not exceed 15% of the Book Value of all Property.

**Person** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**Prevailing Market Conditions** means, in connection with the determination of the rate of interest with respect to any Series of Bonds, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indices of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to such Series of Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions, economic conditions in the health care industry and financial conditions that may affect or be relevant to such Series of Bonds; and such other facts, circumstances and conditions as the applicable Remarketing Agent, in its sole discretion, shall determine to be relevant to the remarketing of such Series of Bonds at the principal amount 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 333 Market Street, 18th Floor, San Francisco, California 94105, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee from time to time.

**Primary Obligor** means that Member or those Members primarily obligated to make Required Payments with respect to any particular Obligation as set forth in a Related Supplement.

**Program** means the Authority's program of making loans under the Act.

**Projected Debt Service Coverage Ratio** means, for any future period of time, the ratio determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness expected to be Outstanding during such period.

**Property** means any and all rights, titles and interests in and to any and all property of a Member whether real or personal, tangible or intangible and wherever situated.

**Property, Plant and Equipment** means all Property of the Obligated Group that is considered property, plant and equipment of such Persons under generally accepted accounting principles.

**Purchase Date** means, with respect to Bonds of any Series, (i) if the Interest Rate Mode is the Daily Mode or the Weekly Mode, any Business Day, and (ii) each day that such Bond is subject to mandatory purchase; provided, however, that the date of the stated maturity of such Bond shall not be a Purchase Date.

**Purchase Fund** means a fund by that name created and established pursuant to the provisions of the Indenture.

**Rate Adjustment Date** for Bonds of each Series means the first day on which each Auction Rate, Daily Rate, Weekly Rate, Commercial Paper Rate, or Long Term Rate shall become effective with respect to such Series of Bonds.

**Rate Period** means any period during which a single interest rate is in effect for a Bond.

**Qualified Financial Products Agreement** means an Interest Rate Exchange Agreement.

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

**Rating Category** means a generic securities rating category, without regard to any refinement or gradation of or within such rating category by a numerical modifier or otherwise.

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

**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.

**Regular Record Date** means (a) with respect to any Interest Period during which the Interest Rate Mode is the Daily Mode or the Weekly Mode, the close of business on the last Business Day of such Interest Period, (b) with respect to any Interest Period during which the Interest Rate Mode is the Auction Mode, one Business Day preceding an Interest Payment Date for such Interest Period, (c) with respect to any Interest Period during which the Interest Rate Mode is the Long Term Rate Mode, the first day (whether or not a Business Day) of the calendar month during which the Interest Payment Date for such Interest Period occurs, and (d) with respect to any Interest Period during which the Interest Rate Mode is the Commercial Paper Mode, the Interest Payment Date for such Interest Period.

**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.

**Remarketing Agent** means any entity appointed to serve as a remarketing agent for a Series of Bonds pursuant to the provisions of the Indenture, and its successors or assigns.

**Remarketing Agreement** means any remarketing agreement entered into between the Corporation and a Remarketing Agent, providing for the remarketing of any Series of Bonds tendered for purchase, as originally executed and as from time to time amended or supplemented in accordance with the terms thereof.

**Remarketing Proceeds Account** means an account by that name established in a Purchase Fund.

**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, or any Obligation, whether at maturity, by acceleration, upon proceeding for redemption or otherwise.

**Required Stated Amount** means with respect to a Credit Facility or a Liquidity Facility provided for any Series of Bonds, at any time of calculation, an amount equal to the aggregate principal amount of all of such Series of Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to twelve percent (12%) per annum) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating such Series of Bonds as necessary to obtain (or maintain) a specified short-term rating for such Series of 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. 19, 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 and any Purchase Fund or any amounts paid by the Corporation pursuant to the Loan Agreement.

**S&P** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Trustee.

**Securities Depository** means DTC and its successors and assigns, or any other securities depository selected pursuant to the provisions of the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

**Series or Series of Bonds** means all bonds issued under the Indenture and designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such bonds as provided in the Indenture.

**Short-Term Indebtedness** means all Indebtedness that has an original term less than or equal to one (1) year and that is not renewable or extendable at the option of a Member to a date or for a period ending more than one (1) year after the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each Fiscal Year.

**SIFMA Municipal Swap Index** means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association (SIFMA), or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee, and effective from such date.

**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. 19** means that certain Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008, between the Corporation and the Master Trustee.

**Supplement No. 19** or **Supplement** means that certain Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008, between the Corporation and the Master Trustee.

**Tax Agreement** means that certain Tax Certificate and Agreement, dated the Issue Date, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms of the Tax Agreement.

**Tender Agent** means the Trustee or any successor thereto, as Trustee under the provisions of the Indenture.

**Trustee** or **Bond Trustee** means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or any successor to its duties under the Indenture.

**2006 Series Project** means the acquisition, construction, renovation and/or equipping of the health care facilities of the Corporation, as more fully described in an exhibit to the Loan Agreement.

**2006 Series Bonds** means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2006 Series A-1, 2006 Series A-2, 2006 Series A-3, 2006 Series B-1 and 2006 Series B-2.

**2006 Series Trustee** means Wells Fargo Bank, National Association.

**2008 Series A-1 Bonds** means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, authorized by, and at any time Outstanding pursuant to, the Indenture.

**2008 Series A-2 Bonds** means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-2, authorized by, and at any time Outstanding pursuant to, the Indenture.

**2008 Series A-3 Bonds** means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-3, authorized by, and at any time Outstanding pursuant to, the Indenture.

**2008 Series B-1 Bonds** means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series B-1, authorized by, and at any time Outstanding pursuant to, the Indenture.

**2008 Series B-2 Bonds** means California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series B-2, authorized by, and at any time Outstanding pursuant to, the Indenture.

**Undelivered Bonds** means any Bond which constitutes an Undelivered Bond under the provisions of the Indenture.

**United States Government Obligations** means obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest, including, but not limited to: (i) U.S. treasury obligations; (ii) all direct or fully guaranteed obligations; (iii) Farmers Home Administration; (iv) General Services Administration; (v) Guaranteed Title XI financing; (vi) Government National Mortgage Association (GNMA); and (vii) State and Local Government Series.

**University or Stanford University** means the Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State.

**Unrestricted Liquid Funds** means unrestricted cash, cash equivalents, and unrestricted marketable securities of the Obligated Group as of such date, from which there shall be subtracted the aggregate principal amount of all Short-Term Indebtedness of the Obligated Group outstanding as of such date and the aggregate amount of any collateral posted in connection with an Interest Rate Exchange Agreement or Qualified Financial Products Agreement as of such date.

**Unsecured** means, when used in connection with Indebtedness, not secured by a Lien; or, if secured by a Lien, that portion of such Indebtedness, if any, by which, at the date the Lien was granted, the amount of such Indebtedness exceeded the fair market value of the Property, securing such Indebtedness, as determined in good faith by the Obligated Group Representative.

**Unsecured Debt Ratio** means, as of any date of calculation, the ratio determined by dividing the Book Value, or (at the option of the Obligated Group Representative) the Current Value, of Property that is not subject to a Lien, by the aggregate principal amount of all Unsecured Indebtedness then Outstanding.

**Variable Rate Indebtedness** means Indebtedness that is payable or required to be purchases or redeemed upon demand of the holder thereof, prior to its stated maturity date.

**Weekly Mode** means, with respect to a Series of Bonds, the period with respect to such Series of Bonds when Weekly Rates are in effect.

**Weekly Rate** means, for each Interest Period within a Weekly Mode, the interest rate borne by a Series of Bonds which is established pursuant to the provisions of the Indenture.

**Weekly Rate Period** means, with respect to a Series of Bonds, each Interest Period with respect to such Series of Bonds when a Weekly Rate is in effect.

## MASTER INDENTURE

### General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group. An Obligation is stated in the Master Indenture to be a joint and several obligation of each Member of the Obligated Group.

## **Authorization and Issuance of Obligations**

Pursuant to the provisions of the Master Indenture, each Member authorizes the issuance from time to time of Obligations or a Series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, which Obligations or Series of Obligations shall be subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement. Pursuant to the provisions of the Master Indenture, the Obligated Group Representative, acting on behalf of the Obligated Group, may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement, subject to satisfaction of the terms, conditions and limitations of the Master Indenture. The Corporation is currently the only Member of the Obligated Group and has been designated the Obligated Group Representative pursuant to the provisions of the Master Indenture.

## **Interest Rate Exchange Agreements**

From time to time, subject to the terms, limitations and conditions Master Indenture, the Obligated Group Representative may issue an Obligation or Series of Obligations securing an Interest Rate Exchange Agreement or Qualified Financial Products Agreement by entering into a Related Supplement. Such Related Supplement must name the Holder of the Obligation, state whether payments under the Obligation are subordinate in right of payment to any other Required Payments under the Master Indenture, and provide that Holder of such Obligation shall not be entitled to exercise any rights under the Master Indenture, including without limitation the right to vote or control remedies, other than the right to receive payment equally and ratably with all other Obligations, unless provided otherwise by the Related Supplement. The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Holders, but with the consent of the Holder of the Obligation identified in the Related Supplement, modify, alter, add to or rescind, in any particular, any of the terms or provisions contained therein.

## **Covenants**

**Payment of Principal and Interest.** The Members jointly and severally covenant and agree to pay or cause to be paid promptly all Required Payments, including the principal of, and premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

**Maintenance of Properties.** Each Member agrees that:

(a) That it will operate and maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof. Each Member, respectively, further covenants and agrees that it will maintain and operate its Property, Plant and Equipment and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of its Property, Plant and Equipment in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the operations of such Members will not be materially and adversely impaired.

(b) That it will pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges that may be or have been assessed or that may have become liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Property, Plant and Equipment or any part thereof; provided, however, that no Member shall be required to pay any tax, assessment, rate or charge as herein provided as long as it shall in good faith contest the validity thereof, provided that such Member shall have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate.

(c) That it will pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(d) That it will at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Properties or any part thereof or securing any of its Indebtedness that would have a material adverse effect on the operations of the Obligated Group or its Properties.

(e) That it will use its best efforts (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) to maintain all permits, licenses and other governmental approvals necessary for the operation of its Properties and to maintain its qualification for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

(f) That it will take no action or suffer any action to be taken by others that would result in the interest on any Related Bond becoming subject to federal income taxation.

**Insurance.** Each Member agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts that are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size. The Obligated Group Representative shall employ an Insurance Consultant at least once every 2 years to review the insurance requirements of the Members. If the Insurance Consultant makes recommendations for the increase of any of the Obligated Group's insurance coverage, the Obligated Group Representative shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In lieu of maintaining insurance coverage, the Members shall have the right to adopt alternative risk management programs that the Governing Body of the Obligated Group Representative determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as shall be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

**Negative Pledge.** Each Member agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, and each Member further agrees that if such a Lien is created or assumed by any Member, it will obtain the written consent of the Obligated Group Representative and will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien; provided, however, that, each Member may create, assume or suffer to exist Permitted Encumbrances.

**Limitations on Additional Indebtedness.** Each Member, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, provided that:

(i) the aggregate principal amount of such Long-Term Indebtedness and all other Outstanding Long-Term Indebtedness incurred pursuant to this clause (i) does not exceed 25% of the Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the issuance of such Long-Term Indebtedness (provided that to the extent Long-Term Indebtedness initially incurred pursuant to this clause subsequently complies with any other incurrence requirement such Long-Term Indebtedness shall thereafter not be deemed to be incurred pursuant to this clause); or

(ii) there is delivered to the Master Trustee

(A) an Officer's Certificate certifying the Historical Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, and such Historical Debt Service Coverage Ratio is not less than 1.10:1.0; and

(B) an Officer's Certificate (accompanied by the written report of an Independent Consultant unless the Projected Debt Service Coverage Ratio for each of the Fiscal Years specified below is at least 1.50:1.0)

(1) stating (and certifying the calculation of) the Projected Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements (or the portion of such Long Term Indebtedness allocated in such Officer's Certificate to such use), the next Fiscal Year succeeding the date on which such capital improvements are expected to be in operation and (y) in the case of Long-Term Indebtedness not being incurred to finance capital improvements (or the portion of such Long-Term Indebtedness allocated in such Officer's Certificate to such use), the next Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred (it being understood that, if any such allocations are made, the portions described in clauses (x) and (y) must sum to 100% of the proposed Long-Term Indebtedness), and

(2) certifying that the Projected Debt Service Coverage Ratio for such Fiscal Year is not less than 1.10:1.0, as shown by forecasted statements of revenues and expenses for such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(iii) there is delivered to the Master Trustee the written report of an Independent Consultant stating that Industry Restrictions have or will make it impossible for the ratios described in clause (ii) above to be met, and that such ratios are not less than 1.0:1.0 and shall apply to the actual debt service on all Long-Term Indebtedness for such Fiscal Year rather than Maximum Annual Debt Service; or

(iv) there is delivered to the Master Trustee an Officer's Certificate certifying that the Historical Pro Forma Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, was at least 1.25:1.0 for the most recent Fiscal Year for which audited financial statements are available; or

(v) there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Indebtedness Ratio of the Obligated Group, taking into account the Long-Term Indebtedness to be incurred, does not exceed 0.67:1.0.

(b) Completion Indebtedness in an aggregate principal amount not exceeding 20% of the aggregate principal amount of Long-Term Indebtedness originally issued to finance the project to be completed.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness if prior to incurrence thereof the Master Trustee receives an Officer's Certificate stating that the issuance of such Long-Term Indebtedness will not increase Maximum Annual Debt Service by more than 15%.

(d) Short-term Indebtedness, provided that:

(i) the total amount of such Indebtedness does not exceed 20% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; and

(ii) with respect to Short-Term Indebtedness, in every Fiscal Year, there shall be at least a 20-day period when the balance of all such Short-Term Indebtedness is reduced to an amount that does not

exceed 5% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.

(e) Non-recourse Indebtedness without limitation.

(f) Balloon Indebtedness, provided that the conditions described in subsection (a) above are satisfied with respect to the incurrence of such Balloon Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service" set forth above.

(g) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit or liquidity facilities used to secure or provide liquidity for Indebtedness.

(h) Liabilities for contributions to alternative risk management programs described above under the caption "Master Indenture - Covenants of the Members - Insurance."

(i) Liabilities incurred in connection with an Interest Rate Exchange Agreement or a Qualified Financial Products Agreement.

(j) Variable Rate Demand Indebtedness provided that the conditions described in subsection (a) above are met with respect to such Variable Rate Demand Indebtedness when it is assumed that such Variable Rate Demand Indebtedness bears interest at the rate described in clause (d) of the definition of "Maximum Annual Debt Service" set forth above.

(k) Liabilities incurred in connection with a sale of accounts receivable with recourse consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such liabilities permitted hereby shall not exceed the aggregate sales price of such accounts receivable; any limitation described under this subsection (k) being applicable only if such liabilities (in accordance with generally accepted accounting principles) constitute Indebtedness.

(l) Subordinated Indebtedness without limit.

So long as any Bond shall remain Outstanding, notwithstanding any other provision of the Master Indenture to the contrary, an Historical Debt Service Coverage Ratio of not less than 1:25:1.0 shall be required in order to incur Long-Term Indebtedness; provided that the Authority may waive, modify or amend such requirement without the consent of the Holder of any Obligation, the Master Trustee, the registered owner of any Bond or the Trustee; provided however that such Historical Debt Service Coverage Ratio shall not be less than the Historical Debt Service Coverage Ratio specified in the provisions of the Master Indenture described above.

**Restrictions on Guaranties.** Each Member agrees that it will not enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty except:

(a) Guaranties of Indebtedness or Interest Rate Exchange Agreements or Qualified Financial Products Agreements of another Member;

(b) Guaranties of Obligations issued under the Master Indenture; and

(c) Any other Guaranty, provided that the conditions described in subsection (a) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness" are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in clause (a) of the definition of "Maximum Annual Debt Service."

**Rates and Charges; Debt Coverage.** (a) Each Member agrees to fix, charge and collect, commencing with the first full Fiscal Year following the execution of the Master Indenture and subject to applicable requirements or restrictions imposed by law or regulation, such rates, fees and charges for the use of its facilities and for the services furnished or to be furnished that, together with all other receipts and revenues of the Obligated Group and

any other funds available therefor, will be reasonably projected to be sufficient in each Fiscal Year so that the Historical Debt Service Coverage Ratio of the Obligated Group as a whole at the end of such Fiscal Year is not less than 1.10:1.0.

(b) Within 150 days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture), the Obligated Group Representative shall compute Income Available for Debt Service, Annual Debt Service, and the Historical Debt Service Coverage Ratio for such Fiscal Year and shall promptly furnish to the Master Trustee a Certificate setting forth the results of such computation. The Obligated Group Representative further agrees that, if at the end of such Fiscal Year the Historical Debt Service Coverage Ratio shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Members or the methods of operation of the Members. Each Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination by its Governing Body that such recommendations (in whole or in part) are in the best interests of the Member, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If the Members comply in all material respects with the reasonable recommendations of the Independent Consultant in respect to said rates, fees, charges and methods of operation or collection, the Members will be deemed to have complied with the covenants of the Master Indenture described under this caption for such Fiscal Year notwithstanding that Income Available for Debt Service shall be less than the amount required as described in subsection (a) above; provided that the Members shall not be excused from taking any action or performing any duty required under the Master Indenture and that no other Event of Default shall be waived by the operation of the provision described in the Master Indenture.

(c) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the ratio described in subsection (a) above to be met and that the Obligated Group has generated the maximum amount of Income Available for Debt Service that, in the opinion of such Independent Consultant, could reasonably have been generated given such Industry Restrictions, then such ratio shall be reduced to 1.0:1.0.

(d) Notwithstanding the foregoing, a Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the governing body of such Member, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any instrumentality thereof, or in compliance with any recommendation for free services that may be made by an Independent Consultant.

So long as any Bond shall remain Outstanding, notwithstanding any other provision of the Master Indenture to the contrary, an Historical Debt Service Coverage Ratio of not less than 1:25:1.0 shall be required; provided, however, that the Authority may waive, modify or amend such requirement without the consent of the Holder of any Obligation, the Master Trustee, the registered owner of any Bond or the Trustee; provided however that such Historical Debt Service Coverage Ratio shall not be less than the Historical Debt Service Coverage Ratio specified in the provisions of the Master Indenture described above.

**Sale, Lease or Other Disposition of Property.** Each Member agrees that it will not, in any consecutive 12-month period, sell, lease or otherwise dispose of any of its Property that, together with all other Property transferred by Members during such 12-month period in transactions other than those described in subsection (a) through (g) below, totals for any consecutive 12-month period an amount in excess of 10% of the Property of the Obligated Group (calculated on the basis of the Book Value of the assets as shown on the most recent audited financial statements), except for transfers of Property:

(a) To any Person if prior to such sale, lease or other disposition, the Master Trustee receives an Officer's Certificate to the effect that such assets shall be or within the next 2 years become inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group and the disposition thereof will not materially and adversely impair the operations of the Members;

- (b) To another Member of the Obligated Group;
- (c) In the ordinary course of business, for the fair market value of the Property so disposed of, or in return for other Property of equal or greater value and usefulness;
- (d) To a Person that is not a Member if such Person shall become a Member pursuant to the provisions of the Master Indenture substantially simultaneously with such transfer;
- (e) To any Person, if such Property consists solely of assets that are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment of an Obligation or Long-Term Indebtedness or operating expenses;
- (f) To another Person in connection with a sale/leaseback or lease/leaseback financing transaction relating to such Property, provided that the Member so transferring or leasing such Property grants a first mortgage lien, subject only to Permitted Encumbrances, to the Master Trustee securing the Member's obligations under the Master Indenture or which first mortgage lien shall be prior in interest to the transfer or lease of such Property to such other Person;
- (g) To any Person upon delivery to the Master Trustee of: (i) an Officer's Certificate demonstrating that during the Fiscal Year immediately preceding the proposed disposition for which financial statements have been audited, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking into account such disposition, would not have been reduced to less than 1.75:1.0 or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such disposition, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such disposition had not occurred, or (iii) (A) a written report from an Independent Consultant stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such disposition, would not be less than 1.20:1.0, or an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately following delivery of such Officer's Certificate, taking into account such disposition, would not be less than 1.35:1.0 and (B) the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report or Officer's Certificate, as the case may be, taking into account such disposition, would not be lower than 65% of the Projected Debt Service Coverage Ratio for the Obligated Group determined as if such disposition had not occurred; or
- (h) To any Person in connection with posting of collateral under an Interest Rate Exchange Agreement or Qualified Financial Products Agreement..

The foregoing provisions described in subsection (a) through (g) above notwithstanding, the Members further agree that no Member will sell, lease or otherwise dispose of Property if (a) the Unsecured Debt Ratio of the Obligated Group, as a result of such disposition, would be reduced from a ratio that was greater than 1.25:1.0 to a ratio that is less than 1.25:1.0 or, if such ratio was less than 1.25:1.0, would be reduced from what it was immediately prior to the sale, lease or other disposition, or (b) such disposition could reasonably be expected to result in a reduction of the Historical Debt Service Coverage Ratio for the Obligated Group such that the Obligated Group Representative would be obligated to retain an Independent Consultant pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Covenants of the Members - Rates and Charges; Debt Coverage," or (c) an Independent Consultant has been retained pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Covenants of the Members - Rates and Charges; Debt Coverage," and such disposition, in the opinion of such Independent Consultant, will have an adverse effect on the Income Available for Debt Service of the Obligated Group.

Nothing in the Master Indenture shall prohibit any Member from making secured or unsecured loans, provided that any such loan (i) is evidenced in writing and (ii) the Master Trustee receives an Officer's Certificate stating that (a) the Obligated Group Representative reasonably expects such loan to be repaid and (b) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

**Consolidation, Merger, Acquisition, Sale or Conveyance.** Each Member covenants that it will not merge or consolidate with any other corporation not a Member or acquire substantially all of the assets of a Person not a Member or sell or convey all or substantially all of its assets to any Person not a Member unless:

(a) After giving effect to the merger, consolidation, acquisition, sale or conveyance (hereinafter referred to under this caption as the "transaction"), the successor or surviving corporation (hereinafter, the "Surviving Corporation") will be the Member, or, if not, the Surviving Corporation shall be a corporation organized and existing under the laws of the United States of America or a State thereof and such Surviving Corporation shall become a Member pursuant to the provisions of the Master Indenture and shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing corporation under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture;

(b) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the date of the proposed merger, consolidation, acquisition, sale or conveyance, would be in default as a result of such merger, consolidation, acquisition, sale or conveyance in the performance or observance of any covenant or condition of the Master Indenture;

(c) So long as any Related Bonds are Outstanding, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such transaction would not cause interest payable on any Related Bonds to be includable in gross income for federal income tax purposes and that such transaction and the assumption of rights and obligations thereafter, complies with the provisions of the Master Indenture;

(d) The Master Trustee shall have received (i) an Officer's Certificate (and, if required by subsection (a) (ii) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness," a written report of an Independent Consultant) to the effect that the Obligated Group would be able to incur at least \$1.00 of Long-Term Indebtedness immediately after such transaction pursuant to subsection (a) (ii), (iv) or (v) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness" (after giving effect to subsection (a) (iii) above under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness"), or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such transaction, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such transaction had not occurred; and

(e) After giving effect to the transaction, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than the Unsecured Debt Ratio for the Obligated Group immediately prior to the transaction.

In case of any such consolidation, merger, sale or conveyance, and upon such assumption of obligations, the Surviving Corporation shall be substituted for its predecessor in interest in all agreements, indentures, and Obligations then in effect, and the Surviving Corporation shall, upon the request of the Master Trustee, execute and deliver to the Master Trustee such documents and endorsements as the Master Trustee may reasonably require in order to effect the said substitution. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation shall, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were a Member of the Obligated Group as at the date of the execution of the Master Indenture and shall thereafter have the right to participate in Financings and in the securing of Master Indenture Obligation Payments hereunder to the same extent as the Members of the Obligated Group; and all Financings and the securing of Master Indenture Obligation Payments undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such merger, consolidation, sale or conveyance.

### **Gross Revenue Fund**

Each Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in deposit accounts designated as the "Gross Revenue Fund"

which the Obligated Group Representative shall establish and maintain, subject to the provisions of the Master Indenture described in the following paragraph, at such banking institution as the Obligated Group Representative shall from time to time designate, in writing, for such purpose (herein called the "Depository Bank") and which has entered into an Account Control Agreement with the Members of the Obligated Group and the Master Trustee. As security for the payment of Required Payments and the performance by each of the Members of its other obligations under the Master Indenture, each Member pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to all Collateral, including Gross Revenues and the Gross Revenue Fund. Each of the Members shall execute the Account Control Agreement, shall execute and cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interest. Each Member irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral. Each Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives 30 days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Member at any time for any lawful purpose, except as otherwise provided in the Master Indenture. In the event that any Member is delinquent for more than one (1) Business Day in the payment of any Required Payment, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, if such Required Payment is not paid within ten (10) days after receipt of such notice, the Master Trustee shall be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to the Depository Bank. Upon delivery of the Order with respect to the Gross Revenue Fund, exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided pursuant to the provisions of the Master Indenture described in the preceding paragraph and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund are subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Member; provided, however, that Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Member agrees to execute and deliver all instruments as may be required to implement the provisions of the Master Indenture described under this caption. Each Member further agrees that a failure to comply with the terms of the Master Indenture described under this caption shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Members as provided pursuant to the provisions of the Master Indenture described under this caption.

Upon receipt of Gross Revenues, each Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Fund and not in any other fund or account; (ii) that the Gross Revenue Fund will be held as a deposit account at the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

## **Obligated Group Membership and Withdrawal**

**Membership in Obligated Group.** Additional Members may be added to the Obligated Group from time to time provided that:

(a) There shall have been delivered to the Master Trustee a copy of a resolution of the proposed new Member that authorizes the execution of the Related Supplement described in subsection (b) below and that authorizes compliance with the terms of the Master Indenture;

(b) There shall have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Member agrees to become a Member, to be bound by the terms and restrictions imposed by the Master Indenture, and to be bound by Indebtedness or the Master Indenture Obligation Payments represented by the Obligations;

(c) There shall have been delivered to the Master Trustee an irrevocable power of attorney authorizing the execution of Obligations by the Obligated Group Representative;

(d) There shall be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(e) There shall be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness that the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(f) The Master Trustee shall have received (i) an Officer's Certificate (and, if required pursuant to the provisions of the Master Indenture, a written report of an Independent Consultant) to the effect that the Obligated Group would, immediately after the addition of the new Member to the Obligated Group, be able to incur \$1.00 of Long-Term Indebtedness pursuant to the provisions of the Master Indenture described under subsection (a) (ii), (a)(iv) or (a)(v) under the caption "Master Indenture - Covenants of the Members - Limitations on Additional Indebtedness," or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such addition, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such addition had not occurred;

(g) There shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Member will not cause the interest payable on any Related Bonds to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended, nor cause a default under the Master Indenture;

(h) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(i) There shall be delivered to the Master Trustee an Officer's Certificate to the effect that after the addition of the new Member to the Obligated Group, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the addition of the new Member.

**Withdrawal from Obligated Group.** Any Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that:

(a) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) Such Member is not a Primary Obligor with respect to any Outstanding Obligations;

(c) The Master Trustee shall have received (i) an Officer's Certificate demonstrating that during the most recent Fiscal Year preceding the proposed withdrawal for which audited financial statements are available, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking into account such withdrawal, would not have been reduced to less than 1.75:1.0, or (ii) an Officer's Certificate (or, at the request of the Master Trustee, a written report of an Independent Consultant) stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such Certificate or report, taking into account such withdrawal, would be greater than the Projected Debt Service Coverage Ratio of the Obligated Group determined as if such withdrawal had not occurred or (iii) (A) a written report from an Independent Consultant stating that the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report, taking into account such withdrawal, would not be less than 1.20:1.0, or an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for the full Fiscal Year immediately following delivery of such Officer's Certificate, taking into account such withdrawal, would not be less than 1.35:1.0 and (B) the Projected Debt Service Coverage Ratio of the Obligated Group for the full Fiscal Year immediately following the date of such report or Officer's Certificate, as the case may be, taking into account such withdrawal, would not be lower than 65% of the Projected Debt Service Coverage Ratio for the Obligated Group determined as if such withdrawal had not occurred;

(d) The Master Trustee shall have received an Opinion of Bond Counsel to the effect that the withdrawal of such Member will not cause the interest payable on any Related Bonds to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended; and

(e) The Master Trustee shall have received an Officer's Certificate to the effect that after giving effect to the withdrawal, the Unsecured Debt Ratio would be at least 1.25:1.0 or, if less than 1.25:1.0, not less than it was for the Obligated Group immediately prior to the withdrawal.

## **Events of Default and Remedies**

**Events of Default.** Event of Default under the Master Indenture include:

(a) Failure on the part of the Obligated Group to make due and punctual payment of any Required Payment under an Obligation;

(b) Default in the payment of any Indebtedness for borrowed moneys (other than (i) Non-Recourse Indebtedness and (ii) an Obligation or Indebtedness in an aggregate principal amount of 2% or less of Net Revenues, as shown on the most recent audited financial statements of the Obligated Group), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be secured or evidenced any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur and any period of grace with respect thereto shall have expired; provided, however, that such default shall not constitute an Event of Default under the Master Indenture if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness;

(c) Failure of any Member to observe or perform any other covenant or agreement under the Master Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated

Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such 30-day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Master Trustee;

(d) Entry of a decree or order for relief in respect of any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member or for any substantial part of the property of any Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

(e) Any Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing; or

(f) An event of default shall exist under any Related Bond Indenture.

**Acceleration; Annulment of Acceleration.** (a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, (i) upon the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or upon the written request of any Holder if an Event of Default described under subsection (a) above under the caption "Master Indenture - Events of Default and Remedies - Events of Default" has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and shall be immediately due and payable, provided, however, that, if the terms of any Related Supplement give a person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In such event, there shall be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest that accrues on such principal and interest to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

#### **Additional Remedies and Enforcement of Remedies**

Upon the occurrence and continuance of any Event of Default under the Master Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or of any Holder if an Event of Default described above under subsection (a) under the caption "Master Indenture - Events of Default and Remedies - Events of Default" has occurred, together with

indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (ii) Suit upon all or any part of the Obligations;
- (iii) Civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;
- (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and
- (v) Enforcement of any other right or remedy of the Holders conferred by law or the Master Indenture.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security given under the Master Indenture by any acts which may be unlawful or in violation under the Master Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Holders of Obligations not making such request.

**Application of Moneys After Defaults.** During the continuance of an Event of Default all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and advances incurred or made by the Master Trustee with respect thereto, shall be applied as follows:

- (a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest or the interest portion related to lease payments or the Financial Products Payments then due on the Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments due or coming due on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

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

- (b) If the principal of or other Required Payments with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of principal and interest and lease payments or other Required Payments then due and unpaid upon the Obligations without preference or priority (except in each case to the extent subordinated in right of payment by the terms of any applicable Related Supplement or

Obligation), or of any installment over any other installment, or of any Obligation over any other Obligation, ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference except to the extent subordinated in right of payment by the terms of any applicable Related Supplement or Obligation.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter be rescinded and annulled under the provisions of the Master Indenture described under this caption, then, subject to the provisions of subsection (b) above in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) above.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of the Master Indenture described under this caption, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue.

Whenever all Obligations and interest thereon have been paid under the provisions of the Master Indenture described under this caption and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their successors, or as a court of competent jurisdiction may direct.

**Holders' Control of Proceedings.** If an Event of Default shall have occurred and be continuing, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right to direct the method and place of conducting any proceeding or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee as provided in the Master Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Obligation Holders not joining in such direction.

**Waiver of Event of Default.** No delay or omission of the Master Trustee or of any Holder of the Obligations to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence under the Master Indenture. The Master Trustee may waive any Event of Default that has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it or before the completion of the enforcement of any other remedy under the Master Indenture. Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in the Master Indenture relating to acceleration, a default in the payment of the amounts due on any Obligation may not be waived without the written consent of the Holders of all the Outstanding Obligations.

## **Supplements and Amendments**

**Supplements Not Requiring Consent of Holders.** The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Obligation Holders, enter into one or more Related Supplements for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission therein; (b) to correct or supplement any provision that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and that shall not materially and adversely affect the interests of the Holders; (c) to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended; (e) to create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture; (f) to obligate a successor to any

Member of the Obligated Group; (g) to add a new Member; or (h) to make any other change that does not materially adversely affect the interests of the Holders of any Obligations.

**Supplements Requiring Consent of Holders.** Other than Related Supplements referred to in the immediately preceding paragraph, the Holders of not less a majority in aggregate principal amount of the Obligations then Outstanding shall have the right to consent to and approve the execution by the Obligated Group Representative and the Master Trustee of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, any of the terms or provisions contained in the Master Indenture. No Related Supplement shall be permitted that would: (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation, without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding; or (iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

### **Discharge of Master Indenture**

**Satisfaction and Discharge of Master Indenture.** If (i) the Members shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) upon payment of all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation that have become due and payable, or (iii) the Members shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee) as trust funds the cash or Governmental Obligations or both the entire amount of moneys or Government Obligations, sufficient to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including the principal and interest due or to become due to such date of maturity or redemption date, as the case may be, such sufficiency to be evidenced by a report of an Accountant, and if the Members shall pay or cause to be paid all other sums payable under the Master Indenture, then the Master Indenture shall cease to be of further effect.

## **SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 19**

### **General**

Supplement No. 19 provides for the issuance of Obligation No. 19 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 19 further secures the obligation of the Corporation arising under and pursuant to the Loan Agreement with respect to the Bonds.

### **Payments on Obligation No. 19; Credits**

Principal of and interest and any applicable redemption premium on Obligation No. 19 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. 19" below regarding prepayment, payments on the principal of and premium, if any, and interest on Obligation No. 19 shall be made at the times and in the amounts specified in Obligation No. 19 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. 19, specifying the amount paid, and identifying such payment as a payment on Obligation No. 19.

The Corporation shall receive credit for payment on Obligation No. 19, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 19 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. 19;

(ii) On installments of principal of Obligation No. 19 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. 19;

(iii) On installments of principal and interest, respectively, on Obligation No. 19 in an amount equal to the principal amount of Bonds for the payment or redemption of which sufficient amounts (as determined by the provisions of the Indenture described below under the caption "The Indenture - Discharge of the Indenture") in cash or United States Government Obligations are on deposit as provided pursuant to the discharge provisions of the Indenture, to the extent such amounts have not been previously credited against payments on Obligation No. 19, 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. 19 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. 19 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. 19 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. 19 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. 19. Prepayments may be made by payments of cash or surrender of Bonds as described above under the caption "Payments on Obligation No. 19; 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. 19 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. 19 remain unpaid, the Corporation shall not be relieved of its obligations under the Master Indenture, including Supplement No. 19.

Prepayments made under Supplement No. 19 shall be credited against amounts to become due on Obligation No. 19 as described above, under the caption "Payments on Obligation No. 19; Credits" and as described in the Loan Agreement.

The Corporation may also prepay all of its indebtedness under Obligation No. 19 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. 19 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. 19 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. 19 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. 19 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. 19 be redeemed unless a corresponding amount of Bonds is also redeemed.

## **THE INDENTURE**

The Indenture sets forth the terms of the Bonds, issued pursuant to the Indenture, the nature and extent of the security, various rights of the Bondholders, the rights, duties, and immunities of the Trustee and the rights and obligations of the Authority.

### **Pledge and Assignment; Revenue Fund**

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, there are pledged to secure the payment of the principal of, 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 the Bonds) held in any fund or account established pursuant to the Indenture (excluding moneys on deposit in the Rebate Fund, any Purchase Fund, Administrative Fees and Expenses and any amounts paid by the Corporation pursuant to the payment of expense and indemnification provisions of the Loan Agreement).

Pursuant to the provisions of the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged as described in the immediately preceding paragraph and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses and any other fees and expenses of the Authority to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, members, agents or employees to reimbursement or indemnification, (iii) the obligation of the Corporation to make deposits to the Rebate Fund pursuant to the Tax Agreement and (iv) any rights of the Authority to receive notices and opinions, to give consents and to make inspections), and Obligation No. 19. 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. 19. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

### **Establishment of Funds and Accounts**

The Indenture creates an Interest Fund, a Revenue Fund, a Principal Fund, including the Sinking Accounts to be established therein, a Rebate Fund, and a Redemption Fund, including the Optional Redemption Account and the Special Redemption Account to be established therein. All such funds and accounts shall be established, maintained and held in trust by the Trustee and applied in accordance with the provisions set forth in the Indenture.

**Funding and Application of the Interest Fund.** Moneys in the Interest Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall deposit the following Revenues in the Interest Fund when and as such Revenues are received: (1) the interest component of all Loan Repayments, including the interest component of all cash prepayments of Loan Repayments made pursuant to the

provisions of the Loan Agreement; (2) the interest component of all payments made pursuant to Obligation No. 19; (3) all interest, profits and other income received from the investment of moneys in the Interest Fund; and (4) any other Revenues not required to be deposited in any other fund or account established pursuant to the Indenture. All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds, as the same becomes due and payable (including accrued interest with respect to any Bonds, purchased or redeemed prior to maturity pursuant to the Indenture) or to reimburse a Credit Facility Provider for drawings made under a Credit Facility for such purpose. In the event a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds and sufficient funds are not provided pursuant to a drawing on such Credit Facility to pay interest on any Interest Payment Date due to default, repudiation or dishonor by the Credit Facility Provider, the Trustee shall notify the Corporation of the amount of the shortfall as soon as practicable and shall apply amounts on deposit in the Interest Fund to pay interest to the Holders rather than to reimburse such Credit Facility Provider.

**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. 19, but excluding the principal component of all cash prepayments of Loan Repayments made pursuant to Obligation No. 19, which shall be deposited in the Redemption Fund; and (3) after completion of the 2006 Series Project, all interest, profits and other income received from the investment of moneys in the Principal Fund. All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as the same becomes due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase, redeem or pay on their stated maturity dates the Series and maturity of Bonds to which such Sinking Account relates on their stated maturity dates, as provided in the Indenture or to reimburse a Credit Facility Provider for drawings made under a Credit Facility for such purpose. In the event a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds and sufficient funds are not provided pursuant to a drawing on such Credit Facility to pay principal on any Mandatory Sinking Account Payment date or any other date on which principal is payable due to default, repudiation or dishonor by the Credit Facility Provider, the Trustee shall notify the Corporation of the amount of the shortfall as soon as practicable and shall apply amounts on deposit in the Principal Fund to pay interest to the Holders rather than to reimburse such Credit Facility Provider.

The Trustee shall establish and maintain within the Principal Fund a separate Sinking Account for each Series of Bonds. On each Mandatory Sinking Account Payment date (or, as and to the extent applicable, on the Interest Payment Date preceding such Mandatory Sinking Account Payment Date as provided in the Indenture), 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 Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture, provided that, at any time prior to giving notice of such redemption, the Trustee may apply moneys in such Sinking Account to the purchase of Bonds of such Series and maturity for which such Sinking Account was established at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par value of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds of such Series and maturity with the Trustee (together with a Request of the Corporation to apply such Bonds so deposited to the Mandatory Sinking Account Payment due on said date with respect to Bonds of such Series and maturity), or Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the provisions of the Indenture described herein, if any, shall be cancelled and destroyed. Any amounts remaining in a Sinking Account when all of the Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Principal Fund. Bonds purchased from a Sinking Account, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Trustee shall be allocated first to the next succeeding Mandatory Sinking

Account Payment for Bonds of such Series and maturity, then as a credit against such future Mandatory Sinking Account Payments for Bonds of such Series and maturity as the Corporation may specify.

**Funding and Application of the Redemption Fund.** Moneys in the Redemption Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. The Trustee shall deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in the provisions of the Indenture described in the following paragraph, the principal component of all cash prepayments of Loan Repayments made pursuant to the provisions of the Loan Agreement; (2) except as provided in the provisions of the Indenture described in the following paragraph, the principal component of all cash prepayments made pursuant to Obligation No. 19; and (3) after completion of the 2006 Series 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 refinanced by the proceeds of the Bonds; (2) the principal component of all cash prepayments made pursuant to Obligation No. 19 which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the health care facilities of the Corporation or proceeds of a sale, lease or other disposition of all or a portion of the facilities refinanced by the proceeds of the Bonds; and (3) after completion of the 2006 Series 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, or to reimburse a Credit Facility Provider with respect to drawings made under a Credit Facility; provided that, at any time prior to the selection of Bonds, for such redemption, the Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds, at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Corporation may direct in writing, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds, are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such Optional Redemption Account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or redeemed from the Redemption Fund shall be allocated to the Mandatory Sinking Account Payments specified by the Corporation in writing.

**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 any Credit Facility Provider, nor any Liquidity Provider 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 (other than any Purchase Fund and any Credit Facility Fund) shall be invested by the Trustee solely at the written direction of the Corporation and solely in Investment Securities. Investment Securities shall be purchased at such prices as the Corporation may direct. All Investment Securities shall be acquired subject to the limitations as to maturities and other matters as are set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. In the absence of any other written direction from the Corporation, the Trustee shall invest solely in Investment Securities specified in clause (6) of the definition thereof. Unless otherwise specifically provided in the Indenture, ratings and credit criteria specified with respect to any Investment Security shall refer to the ratings assigned and the credit of the issuing or guaranteeing organization at the time such Investment Security is acquired. Moneys in any Purchase Fund and any Credit Facility Fund shall be held uninvested. 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 and the Rebate Fund shall be deposited when received in each such fund or account. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture shall be deposited when received in such fund or account. Notwithstanding any other provision of the Indenture to the contrary, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. Subject to the provisions of the Indenture, the Trustee may commingle any of the funds or accounts established pursuant to the Indenture (other than any Purchase Fund, any Credit Facility Fund and 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.

## **Credit Facilities; Credit Facility Funds**

The Trustee shall hold and maintain each Credit Facility, if any, for the benefit of the Holders of the Series of Bonds to which such Credit Facility relates until such Credit Facility expires in accordance with its terms. Subject to the provisions of the Indenture, the Trustee shall enforce all terms, covenants and conditions of each Credit Facility, including payment when due of any draws on such Credit Facility, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, such Credit Facility, and will not consent to, agree to or permit any amendment or modification of such Credit Facility which would materially adversely affect the rights or security of the Holders. If at any time during the term of a Credit Facility any successor Trustee shall be appointed and qualified under the Indenture, the resigning or removed Trustee shall request that the Credit Facility Provider transfer such Credit Facility to the successor Trustee. If the resigning or removed Trustee fails to make this request, the successor Trustee shall do so before accepting appointment. When a Credit Facility expires in accordance with its terms or is replaced by an Alternate Credit Facility, the Trustee shall immediately surrender such Credit Facility to the then-existing Credit Facility Provider; provided, however that the Trustee shall not surrender such Credit Facility until all draws under such Credit Facility shall have been honored. All provisions in the Indenture relating to the rights of a Credit Facility Provider shall be of no force and effect if

there is no Credit Facility or Alternate Credit Facility in effect and, if a Credit Facility Provider and a Liquidity Facility Provider are the same entity, there are no Liquidity Facility Bonds and all amounts owing to such Credit Facility Provider and, if a Credit Facility Provider and a Liquidity Facility Provider are the same entity, such Liquidity Facility Provider hereunder and under the agreement then in effect with respect to such Credit Facility have been paid.

Unless a Credit Facility Provider Failure has occurred and is continuing, the principal and Redemption Price of, and interest on, a Series of Bonds secured by a Credit Facility shall be paid solely with Available Moneys. While a Credit Facility in the form of a letter of credit is in effect with respect to any Series of Bonds, the Trustee shall, on the Business Day preceding each Interest Payment Date and Principal Payment Date (or other date upon which principal of such Bonds is due), draw on the applicable Credit Facility in accordance with the terms thereof so as to receive thereunder by 3:00 p.m., New York City time, on said Interest Payment Date and Principal Payment Date (or other date upon which principal of such bonds is due), an amount, in immediately available funds, equal to the amount of interest and principal payable on such Series of Bonds on such Interest Payment Date and Principal Payment Date (or other date upon which principal of such Bonds is due). The proceeds of such draws shall be deposited in the applicable Credit Facility Fund pursuant to the provisions of the Indenture and shall be applied to pay principal of and interest on the applicable Series of Bonds prior to the application of any other funds held by the Trustee therefor. Amounts held in a Credit Facility Fund shall be held uninvested and separate and apart from all other funds and accounts. Notwithstanding the foregoing, if a Credit Facility Provider and a Liquidity Facility Provider for a Series of Bonds are the same entity, the Trustee shall not draw on the Credit Facility with respect to any payments due or made in connection with Liquidity Facility Bonds. In no event shall the Trustee draw on a Credit Facility with respect to any payments made in connection with Bonds not covered by such Credit Facility or Bonds owned by the Corporation or any Member.

If a Credit Facility in the form of a letter of credit is provided in connection with any Series of Bonds, the Trustee shall establish, maintain and hold in trust a special fund designated as a "Credit Facility Fund." The Trustee shall deposit in such Credit Facility Fund all moneys derived from a drawing under a Credit Facility for the purpose of paying the principal of and interest on the Series of Bonds secured by such Credit Facility when due. Moneys held in a Credit Facility Fund shall be held uninvested and shall not be commingled with any other moneys. Moneys in a Credit Facility Fund shall be withdrawn by the Trustee from such Credit Facility Fund and applied to the payment of the principal of and interest on the Series of Bonds secured by such Credit Facility on each Principal Payment Date for such Bonds (or other date upon which principal of such Bonds is due) and Interest Payment Date for such Bonds, provided that such moneys shall not be used to pay the principal of or interest on any Bonds not secured by the Credit Facility to which such Credit Facility Fund relates or Bonds owned by the Corporation or any Member.

## **Events of Default and Remedies**

**Events of Default.** The following events shall be Events of Default:

- (a) default in the due and punctual payment of the principal or Redemption Price of any Bond, when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, including redemption from Mandatory Sinking Account Payments, by declaration of acceleration or otherwise;
- (b) default in the due and punctual payment of any installment of interest on any Bond, when and as such interest installment shall become due and payable;
- (c) failure to pay the Purchase Price of any Bond tendered or subject to mandatory tender;
- (d) 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 a Credit Provider, if any, or the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding;

(e) a Loan Default Event;

(f) receipt by the Trustee of notice from a Credit Facility Provider (if any) that an Event of Default (as defined in the agreement entered into by the Corporation with such Credit Facility Provider) has occurred under such agreement and which notice directs the Trustee to accelerate the Bonds of the Series to which such Credit Facility relates; or

(g) receipt by the Trustee of notice from a Credit Facility Provider that the amount of an interest drawing under the Credit Facility provided by such Credit Facility Provider will not be reinstated as provided in such Credit Facility.

Cancellation or conversion of a Series of Bonds from one Mode to another, including cancellation or conversion due to a failure to remarket, shall not constitute an "Event of Default" under the Indenture.

**Acceleration of Maturities.** Subject to the rights of a Credit Facility Provider providing a Credit Facility for a Series of Bonds set forth in the provisions of the Indenture, 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. 19 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. 19. Notwithstanding the foregoing, upon the occurrence of an Event of Default under the provisions of the Indenture described in (f) or (g) under the heading "Events of Default" above, upon receipt of notice of an Event of Default described in (f) or (g) above from a Credit Facility Provider directing acceleration of a Series of Bonds, the Trustee shall declare the principal of the Bonds of the applicable Series, 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.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Indenture or in the Bonds to the contrary notwithstanding, interest shall cease to accrue on such Bonds from and after the date of such notice of acceleration. Upon a declaration of acceleration pursuant to the Indenture applicable to any Series of Bonds then secured by Credit Facility in the form of a letter of credit, the Trustee shall immediately draw on such Credit Facility then in effect in accordance with its terms, as provided in the Indenture, in an amount sufficient to pay principal and interest on the Bonds secured by such Credit Facility, and shall immediately apply the proceeds of such draw to the payment of such Bonds.

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. 19 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, (provided that if a Credit Facility was drawn upon in connection with such Event of Default, such Credit Facility has been reinstated and in the case of an Event of Default described in the Indenture, the notice provided by such Credit Facility Provider shall have been rescinded by such Credit Facility Provider), 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. The Trustee shall give written notice to each Credit Facility Provider, if any, and each Liquidity Facility Provider, if any, of such rescission and annulment. 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.** Subject to the provisions of the Indenture relating to the rights of the Credit Facility Providers to direct remedies with respect to the applicable Series of Bonds, 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. 19, 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.** Subject to the provisions of the Indenture relating to the rights of the Credit Facility Providers to direct remedies with respect to the applicable Series of Bonds, 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.** Subject to the provisions of the Indenture relating to the rights of the Credit Facility Providers to direct remedies with respect to the applicable Series of Bonds, 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. 19, 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. 19, 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.

### **Rights of Credit Facility Providers to Direct Remedies, Grant Waivers and Consents**

Upon the occurrence and continuance of an Event of Default, the Credit Facility Provider for a Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted (i) to the Trustee for the benefit of the Holders of the Bonds of such Series or (ii) to the Holders of the Bonds of such Series under the provisions of the Indenture, including, without limitation, acceleration of the principal of the Bonds of such Series as is described herein and the right to annul any declaration of acceleration. The Credit Facility Provider for a Series of Bonds shall also be entitled: (i) to approve all waivers of events of default with respect to the applicable Series of Bonds and no remedial action with respect to the Bonds of the applicable Series may be taken without the consent of the Credit Facility Provider for such Series of Bonds; and (ii) to grant consents with respect to the applicable Series of Bonds.

### **Amendment of the Indenture**

**Amendments Permitted.** The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee (which written consent may be provided by the Credit Facility Provider then providing a Credit Facility for a Series of Bonds); provided however, that if such amendment is only applicable with respect to one Series of Bonds, such amendment shall become binding when the written consent of the Holders of a majority in aggregate principal amount of the Bonds of such Series then Outstanding is filed with the Trustee; and provided further, however, that if such amendment will, by its terms, not take effect so long as Bonds of any particular Series or maturity remain Outstanding, the consent of the Holders of Bonds of such Series or maturity, as applicable, shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provisions of the Indenture described herein. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, 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 amendments appropriate or necessary to accommodate conversion from one Interest Rate Mode to another Interest Rate Mode;

(7) to make any modification or amendment to the Indenture which would be effective upon the remarketing of a Series of Bonds following the mandatory tender of such Series of Bonds pursuant to the provisions of the Indenture;

(8) to make amendments appropriate or necessary to provide for any Credit Facility or Liquidity Facility;

(9) to effect a change in the redemption schedule for a Series of Bonds upon conversion to the Long Term Rate Mode;

(10) to make any changes in the definition of Maximum Interest Rate set forth in the Indenture to conform to current market practice at the time of conversion of a Series of Bonds to an Auction Mode;

(11) to make any changes pursuant to the provisions of the Indenture to the SIFMA provisions then in effect upon the conversion of a Series of Bonds to an Auction Mode; or

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

#### **Defeasance**

**Discharge of Bonds and Indenture.** The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(1) by paying or causing to be paid (with Available Moneys at any time a Credit Facility in the form of a letter of credit is in effect with respect to a Series of Bonds) 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 (which shall be Available Moneys at any time a Credit Facility in the form of a letter of credit is then in effect) or securities (purchased with Available Moneys if a Credit Facility in the form of a letter of credit is then in effect with respect to a Series of Bonds) in the necessary amount (as provided pursuant to the provisions of the Indenture) to pay when due or redeem all Bonds then Outstanding; or

(3) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority and the Corporation shall have paid all Administrative Fees and Expenses and any other fees and expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture and upon receipt by the Trustee and the Authority of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of

Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied.

## **THE LOAN AGREEMENT**

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds, to the Corporation and the repayment of and security for the loan provided by the Corporation.

### **Issuance of Obligation No. 19**

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. 19, concurrently with the issuance and delivery of the Bonds, Obligation No. 19. The Authority agrees that Obligation No. 19 shall be registered in the name of the Trustee.

### **Payment of Loan**

**Loan Repayments.** Pursuant to the Loan Agreement, the Authority lends and advances to the Corporation, and the Corporation borrows and accepts from the Authority, the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of the Loan Agreement and the Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees to pay, or cause to be paid, Loan Repayments as follows: (i) on or before the Business Day next preceding each Interest Payment Date, the full amount of the interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding (less any amounts on deposit in the Interest Fund available for the payment of such interest) and (ii) on or before the Business Day next preceding each Principal Payment Date, the aggregate amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into the Sinking Accounts for Outstanding Bonds, in each case on such Principal Payment Date (less any amounts on deposit in the Principal Fund available for the payment of such principal or Mandatory Sinking Account Payments). Notwithstanding the foregoing schedule of payments, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or redemption price of and interest on the Bonds from time to time Outstanding under the Indenture and other amounts required to be paid under the Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable by the Corporation to the Authority under the Loan Agreement or with respect to Obligation No. 19 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. 19, the Corporation shall also pay to the Authority or the Trustee, as the case may be, Additional Payments, as follows:

(a) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(b) All reasonable fees, charges, expenses and indemnities of the Trustee for services rendered under the Loan Agreement and under the Indenture, as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, Supplement No. 19, Obligation No. 19 or the Indenture; and

(d) The annual fee of the Authority and reasonable fees and expenses of the Authority or any agent or counsel selected by the Authority to act on its behalf in connection with the Loan Agreement, the Master Indenture, Supplement No. 19, Obligation No. 19, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds in connection with any litigation which may at any time be instituted involving the Loan Agreement, the Master Indenture, Supplement No. 19, Obligation No. 19, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Indenture, Supplement No. 19 and Obligation No. 19.

**Obligations Unconditional.** The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 19, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 19, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 19, the Master Indenture or the Indenture. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation:

(a) Will pay all amounts required under the Loan Agreement and under Obligation No. 19 without abatement, deduction or set-off except as otherwise expressly provided in the Loan Agreement;

(b) Will not suspend or discontinue any payments due under the Loan Agreement or under Obligation No. 19 for any reason whatsoever, including, without limitation, any right of set-off or counterclaim;

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

(d) Except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the Corporation's facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State, or any political subdivision of either thereof or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement.

### **Continuing Disclosure**

The Corporation, on behalf of itself and the other Members of the Obligated Group, covenants and agrees that it shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event; however, 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. 19 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. 19 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, or the Credit Facility Provider; except that, if such failure or breach can be remedied but not within such 60 day period and if the Corporation shall have taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Authority, the Trustee or the Credit Facility Provider;

(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. 19 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 the foregoing, if a Credit Facility is in full force and effect with respect to a Series of Bonds and if the Credit Facility Provider providing such Credit Facility has not failed to make a payment required in connection therewith, which failure has not been cured, such Credit Facility Provider shall have the right to direct the remedies with respect to such Series of Bonds upon any Loan Default Event and the written consent of the Credit Facility Provider shall be required prior to remedial action being taken under the Loan Agreement with respect to such Series of Bonds.

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. 19 and all interest thereon immediately due and payable in accordance with the provisions of the Master Indenture.

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## APPENDIX D

### PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

California Health Facilities Financing Authority  
Sacramento, California

California Health Facilities Financing Authority  
Refunding Revenue Bonds (Stanford Hospital and Clinics),  
2008 Series A-1, 2008 Series A-2, 2008 Series A-3, 2008 Series B-1 and 2008 Series B-2  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Issuer") in connection with the issuance of \$428,500,000 aggregate principal amount of California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1, 2008 Series A-2, 2008 Series A-3, 2008 Series B-1 and 2008 Series B-2 (the "Bonds"), issued pursuant to a Indenture, dated as of June 1, 2008 (the "Indenture"), between the Issuer and Wells Fargo 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 Hospitals and Clinics (the "Borrower") pursuant to a Loan Agreement, dated as of June 1, 2008 (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 Borrower and the Trustee, certificates of the Issuer, the Borrower, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Ropes & Gray LLP, counsel to the 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 the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower regarding the use of the facilities refinanced with the proceeds of Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. 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, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Loan Agreement, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, any Credit Facility Fund and any Purchase Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.
4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, 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

## APPENDIX E

### BOOK-ENTRY SYSTEM

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. a consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

**The Authority and the Corporation cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of and interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority or the Corporation is responsible or liable for the failure of DTC or any Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.**

**None of the Authority, the Corporation or the Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Participant, or any Indirect Participant; (ii) the payment by DTC or any Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Bonds; (iii) any notice that is permitted or required to be given to Holders under the Bond Indenture; (iv) the selection by DTC, any Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Participants or Indirect Participants under the book-entry system.**

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## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated June 2, 2008 (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 Wells Fargo 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 \$70,500,000 in aggregate principal amount of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1 (the "2008 Series A-1 Bonds") and \$85,700,000 in aggregate principal amount of the California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-3 (the "2008 Series A-3 Bonds," and, together with the 2008 Series A-1 Bonds, hereinafter collectively referred to as the "Bonds"), which are being issued pursuant to an Indenture, dated as of June 1, 2008 (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, 2008 (the "Loan Agreement"), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement relating to the above-referenced Bonds are secured by Stanford Hospital and Clinics Obligation No. 19, issued by the Corporation pursuant to Supplemental Master Indenture for Obligation No. 19, dated as of June 1, 2008 ("Supplement No. 19"), between the Corporation and The Bank of New York Trust Company, N. A., as trustee (the "Master Trustee"). Supplement No. 19 supplements and amends the Master Indenture of Trust, dated as of December 1, 1990, between the Corporation, formerly known as Stanford University Hospital, and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor master trustee to The Bank of New York Trust Company, N. A. The Master Indenture of Trust, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by Supplement No. 19, is hereinafter referred to as the Master Indenture.

Pursuant to Section 6.11 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).

**Central Post Office** means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the SEC as an intermediary through which filings required by this Disclosure Agreement may be made in compliance with the Rule.

**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 Wells Fargo 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.

**National Repository** shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the SEC are listed at <http://www.sec.gov/info/municipal/nrmsir.htm>.

**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 SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SEC** shall mean the Securities and Exchange Commission or any successor agency thereto.

**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 SEC. As of the date of execution and delivery of this Disclosure Agreement, there is no State Repository.

**SECTION 3. Provision of Annual Reports and Quarterly Reports.** (A) The Corporation shall, or shall upon written direction cause the Dissemination Agent to, not later than one hundred fifty (150) days after the end of the fiscal year of the Obligated Group, commencing with the Annual Report for the fiscal year of the Obligated Group ending August 31, 2008, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Corporation shall also provide each Annual Report to any Beneficial Owner of at least \$1,000,000 aggregate principal amount of Bonds which shall submit a written request to the Corporation.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the fiscal year of the Obligated Group changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(F).

(B) Not later than five (5) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the 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 five (5) Business Days prior to such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Corporation and the Dissemination Agent to determine if the Corporation is in compliance with subsection (A).

(C) If the Trustee is unable to verify that an Annual Report has been provided to the 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 provide (i) to any Beneficial Owner of at least \$1,000,000 aggregate principal amount of Bonds which shall submit a written request to the Corporation, 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, and the third fiscal quarter and to consist of a consolidated balance sheet, a consolidated statement of operations and changes in net assets and a consolidated statement of cash flows of the Obligated Group and such subsidiaries as are required to be included in accordance with generally accepted accounting principles and an update (as of the last day of the most recently ended fiscal quarter) of the information contained in Table 7 entitled "Historical Utilization" set forth in Appendix A of the Official Statement, dated May 28, 2008, 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, 2008, the Corporation shall provide a Quarterly Report, consistent with this subsection (E), not later than sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of the Members of the Obligated Group. Each Quarterly Report shall be provided by the Corporation to any Beneficial Owner who shall have filed a written request with the Corporation in accordance with the

requirements set forth herein and shall also be provided by the Corporation to each Repository, the Trustee (if the Trustee is not the Dissemination Agent) and the Dissemination Agent.

(F) The Corporation reserve the right to make any filing required to be made with a Repository pursuant to this Disclosure Agreement by submitting such filing information, or causing such filing information to be submitted, to the Central Post Office.

(G) Notwithstanding any other provision of this Disclosure Agreement to the contrary, the Corporation may provide any Annual Report or any Quarterly Report to Beneficial Owners by means of posting such Annual Report or Quarterly Report on an internet site that provides open access to Beneficial Owners.

**SECTION 4. Content of Annual Reports.** The Annual Report of the Obligated Group shall contain or include by reference the following:

(A) The audited financial statements of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable in the United States as promulgated from time to time. If the Obligated Group's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the Official Statement and the audited financial statements shall be filed in the same manner as the Annual Report when such audited financial statements become available.

(B) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information set forth in the front portion of the Official Statement under the caption "Debt Service Requirements."

(C) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information contained in each of the following tables set forth in Appendix A of the Official Statement: (i) Table 7 entitled "Historical Utilization" set forth under the caption "Services, Facilities, and Operations-Utilization;" (ii) Table 10 entitled "Pro Forma Consolidated Capitalization" set forth under the caption "Summary of Financial Information-Pro Forma Capitalization;" (iii) Table 11 entitled "Consolidated Liquidity" set forth under the caption "Summary of Financial Information-Liquidity;" and (iv) Table 12 entitled "Consolidated 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 SEC. 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 or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(F), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the

financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. **Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. **Default.** In the event of a failure of the Corporation or the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of 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  
M/C 5554  
Stanford, California 94305  
Attention: Chief Financial Officer  
Telephone: (650) 723-3299  
Telecopy: (650) 723-7457

(ii) If to the Trustee or the Dissemination Agent:

Wells Fargo Bank, National Association  
333 Market Street, 18th Floor  
MAC#: A0119-181  
San Francisco, California 94105  
Attention: Corporate Trust Services  
Telephone: (415) 371-3357  
Telecopy: (415) 371-3400

(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

**Wells Fargo 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 Issue: California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics), 2008 Series A-1 and 2008 Series A-3

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

Date of Issuance of Bonds: June 2, 2008

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.11 of the Indenture, dated as of June 1, 2008, between the Authority and Wells Fargo Bank, National Association, as trustee, and as required by Section 5.16 of the Loan Agreement, dated as of June 1, 2008, between the Authority and the Corporation. [The Corporation anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as trustee on behalf of Stanford Hospital and Clinics

cc: Authority  
Corporation



