

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.

\$60,000,000

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

**Variable Rate Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2012 Series C**



Dated: Date of Delivery

Due: As set forth on inside cover hereof

This Official Statement has been prepared to provide information in connection with the execution and delivery of the above-referenced bonds (the “Bonds”) issued for the benefit of Stanford Hospital and Clinics (the “Corporation”). While the Bonds are Outstanding, such Bonds may bear interest at an interest rate determined in accordance with one of the following interest rate periods – the Daily Interest Rate Period, the Weekly Interest Rate Period, the Short-Term Interest Rate Period, the Long-Term Interest Rate Period, the Windows Interest Rate Period, the Index Floating Rate Period or the Two-Day Interest Rate Period – as elected by the Corporation. Initially, the Bonds will be issued in the Windows Interest Rate Period. A summary of the terms applicable to the Bonds while in the Windows Interest Rate Period, and in the other Interest Rate Periods provided in the Indenture, is set forth in APPENDIX C hereto. Subsequent to the issuance of the Bonds in the initial Interest Rate Period, the interest rate on the Bonds may be adjusted upon the direction of the Corporation, at the times and following satisfaction of the conditions that are set forth in the Indenture and described herein.

The interest payment dates for the Bonds shall be those for the interest rate period then applicable to the Bonds as set forth on the inside cover hereof and in APPENDIX C hereto.

The Bonds shall be issuable in fully registered form in denominations of \$100,000 and any integral multiple of \$5,000 in excess of \$100,000 during a Daily Interest Rate Period, a Weekly Interest Rate Period, a Windows Interest Rate Period, a Two-Day Interest Rate Period or a Short-Term Interest Rate Period, or \$5,000 and any integral multiple thereof during a Long-Term Interest Rate Period or an Index Floating Rate Period. The Bonds will be registered as book-entry only through DTC (see APPENDIX E hereto).

Holders of the Bonds will have the option to tender their Bonds or portions thereof in authorized denominations for purchase at the principal amount thereof plus accrued interest thereon, at the times and subject to the conditions described herein. Holders of the Bonds will be required to tender their Bonds for purchase at the principal amount thereof plus accrued interest thereon, under certain circumstances as described herein. **From their date of delivery, the purchase price of any Bonds tendered or deemed tendered for purchase and not remarketed will not be supported by any form of liquidity agreement. Any Bonds that are not remarketed will be required to be purchased by the Corporation from its own funds. While the Bonds are in the Windows Interest Rate Period, the failure of the Corporation to purchase Bonds on a Windows Mandatory Tender Date shall constitute an Event of Default under the Indenture. While the Bonds are in any other Interest Rate Period, the failure of the Corporation to purchase Bonds that are tendered and not remarketed shall constitute an Event of Default under the Indenture.**

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and Loan Agreement, as described herein, and will be payable from Loan Repayments made by 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 Obligation No. 32 issued 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. 32 in an amount sufficient to pay the principal or purchase price of and interest on the Bonds when due. Currently, the Corporation is the sole member of the Obligated Group.

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

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF THE BONDS OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 32 AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY SUCH POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR PURCHASE PRICE OF THE BONDS OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

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

The Bonds are offered when, as and if received by the Underwriter, 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 Underwriter by its 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 May 23, 2012.

HONORABLE BILL LOCKYER
Treasurer of the State of California
As Agent for Sale

MORGAN STANLEY

May 22, 2012

† See “Ratings.”

\$60,000,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Variable Rate Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2012 Series C

<u>Maturity Date</u>	<u>Initial Interest Payment Date</u>	<u>Initial Mandatory Tender Window</u>	<u>Initial Windows Spread</u>	<u>Price</u>	<u>CUSIP[†]</u>
August 15, 2051	June 7, 2012	210 Days	0.08%	100%	13033L ZN0

[†] A registered trademark of The American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services business. CUSIP numbers are provided for convenience of reference only. None of the Authority, the Corporation or the Underwriter assumes 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 Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS
IN THIS OFFICIAL STATEMENT

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

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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TABLE OF CONTENTS

	Page
INTRODUCTORY STATEMENT	1
Purpose of this Official Statement	1
Stanford Hospital and Clinics	1
Plan of Finance	2
Remarketing Agent	2
Security for the Bonds	2
Additional Indebtedness	3
Bondholders' Risks	3
Availability of Documents	3
THE AUTHORITY	3
General	3
Organization and Membership	4
Outstanding Indebtedness of the Authority	4
THE BONDS	4
General	4
Summary of Certain Provisions of the Bonds	4
Liquidity for Payment of Purchase Price	5
Special Considerations Relating to the Bonds	6
Redemption	7
Mandatory Purchase In Lieu of Redemption	8
Notice to Bondholders	8
SECURITY AND SOURCE OF PAYMENT FOR THE BONDS	8
General	8
The Master Indenture	9
Security and Enforceability	10
Limited Liability of the Authority	12
THE PLAN OF FINANCE	12
The Series 2012 Bonds	12
The Bonds	12
The Other Variable Rate Bonds	12
The Fixed Rate Bonds	13
ESTIMATED SOURCES AND USES OF FUNDS	13
DEBT SERVICE REQUIREMENTS	14
CONTINUING DISCLOSURE	16
BONDHOLDERS' RISKS	16
General	16
Significant Risk Areas Summarized	17
Nonprofit Health Care Environment	20
Federal Budget Cuts	22
Health Care Reform	22
Patient Service Revenues	23
Regulatory Environment	29
Business Relationships and Other Business Matters	33

Tax-Exempt Status and Other Tax Matters	36
Other Risk Factors.....	39
TAX MATTERS	41
APPROVAL OF LEGALITY	43
LITIGATION	43
The Corporation	43
The Authority	43
RATINGS.....	43
INDEPENDENT ACCOUNTANTS.....	44
UNDERWRITING	44
RELATIONSHIPS AMONG THE PARTIES.....	44
MISCELLANEOUS.....	45
APPENDIX A – INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS	A-1
APPENDIX B – CONSOLIDATED FINANCIAL STATEMENTS OF THE CORPORATION AND SUBSIDIARIES.....	B-1
APPENDIX C – SUMMARY OF PRINCIPAL DOCUMENTS	C-1
APPENDIX D – PROPOSED FORM OF OPINION OF BOND COUNSEL.....	D-1
APPENDIX E – BOOK-ENTRY SYSTEM.....	E-1
APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT	F-1

OFFICIAL STATEMENT

\$60,000,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Variable Rate Revenue Bonds
(STANFORD HOSPITAL AND CLINICS)
2012 Series C

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 \$60,000,000 aggregate principal amount of California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics), 2012 Series C (the “Bonds”).

The Bonds will be issued pursuant to and secured by an Indenture, dated as of May 1, 2012 (the “Indenture”), between the California Health Facilities Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). The Authority will lend the proceeds of the Bonds to Stanford Hospital and Clinics, a California nonprofit public benefit corporation (the “Corporation”) pursuant to a Loan Agreement, dated as of May 1, 2012 (the “Loan Agreement”), between the Authority and the Corporation.

Stanford Hospital and Clinics

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

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

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

Plan of Finance

The issuance of the Bonds is a component of the Corporation's financing plan, which involves the issuance of approximately \$568.3 million total aggregate principal amount of bonds, consisting of \$60 million aggregate principal amount of variable rate bonds which are the Bonds described in this Official Statement, \$100 million aggregate principal amount of variable rate bonds to be purchased by a single financial institution and not publicly offered (the "Other Variable Rate Bonds" and, together with the Bonds, the "Variable Rate Bonds") and approximately \$408.3 million aggregate principal amount of fixed rate bonds (the "Fixed Rate Bonds" and, together with the Variable Rate Bonds, the "Series 2012 Bonds"), issued concurrently with the Bonds. The issuance of the Bonds is not dependent upon the issuance of the Other Variable Rate Bonds or the Fixed Rate Bonds.

The proceeds of the Bonds will be used to finance a portion of the costs of the replacement and renovation of the Corporation's hospital facilities (the "Project"). See "ESTIMATED SOURCES AND USES OF FUNDS" herein and APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS – THE PROJECT, SHC'S LONG RANGE MASTER PLAN AND ADDITIONAL CAPITAL NEEDS—The Project."

The Corporation also will use the proceeds of the Other Variable Rate Bonds to finance a portion of the costs of the Project. The Corporation will use the proceeds of the Fixed Rate Bonds to finance a portion of the costs of the Project, to refinance certain outstanding bonds previously issued for the benefit of the Corporation and to pay certain costs of issuance with respect to the Fixed Rate Bonds as described herein.

Costs of issuance related to the Series 2012 Bonds, including underwriter's compensation, will be paid as described under "THE PLAN OF FINANCE" herein.

Remarketing Agent

The Corporation has appointed Morgan Stanley & Co. LLC as the initial remarketing agent (the "Remarketing Agent") for the Bonds under the Indenture. The Remarketing Agent may be removed or replaced at any time, subject to the terms and conditions of the Indenture and the Remarketing Agreement, dated as of May 1, 2012 (the "Remarketing Agreement"), between the Corporation and the Remarketing Agent.

Security for the Bonds

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture, and will be payable solely from payments (the "Loan Repayments") made by the Corporation under the Loan Agreement, from payments made by the Corporation on Obligation No. 32 (hereinafter defined), and from certain funds held under the Indenture. All capitalized terms used in this Official Statement and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture or the Master Indenture, as applicable. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS."

The obligation of the Corporation under the Loan Agreement with respect to the Bonds will be further evidenced and secured by an obligation ("Obligation No. 32") to be issued under the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 and effective as of June 16, 2011 (the "Amended and Restated Master Indenture of Trust"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), as supplemented by the Supplemental Master Indenture for Obligation No. 32, dated as of May 1, 2012 ("Supplement No. 32"), between the Corporation and the Master Trustee. The Amended and Restated Master Indenture of Trust amended and restated the Master Indenture of Trust, dated as of December 1, 1990 (the "Original Master Indenture"), between the Corporation, formerly known as Stanford University Hospital, and First Interstate Bank, LTD., predecessor trustee to BNY Western Trust Company predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as Master Trustee. The Amended and Restated Master Indenture of Trust, as supplemented and amended from time to time pursuant to its terms, including as supplemented by Supplement No. 32 is herein referred to as the "Master Indenture." The obligations of the Corporation with respect to the loan of the proceeds of the Other Variable Rate Bonds and the Fixed Rate Bonds will each be evidenced by an Obligation (the "Variable Rate Obligation" and the "Fixed Rate Obligation," respectively) issued by the Corporation under the Master Indenture. Additionally, the

Corporation will deliver to the purchaser of the Other Variable Rate Bonds an Obligation (the “Bank Obligation” and, together with Obligation No. 32, the Variable Rate Obligation and the Fixed Rate Obligation, the “Series 2012 Obligations”) securing the Corporation’s obligations under a supplemental covenant agreement between the Corporation and such purchaser. The Variable Rate Obligation, the Fixed Rate Obligation and the Bank Obligation will each rank on a parity with all Obligations issued under the Master Indenture, including Obligation No. 32. The Series 2012 Obligations, the outstanding Obligations relating to other indebtedness and obligations of the Corporation (as described below) and any other Obligations issued in the future under the Master Indenture (each an “Obligation” and collectively, the “Obligations”) will be secured by security interests in (i) the Gross Revenues of each Member of the Obligated Group and (ii) the moneys on deposit from time to time in the Gross Revenue Fund established under the Master Indenture. Currently, the Corporation is the only Member of the Obligated Group created pursuant to the Master Indenture. See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS” herein.

Notwithstanding the effectiveness of the Amended and Restated Master Indenture of Trust, provisions providing for certain actions to be taken upon the direction of the Holders of fifty percent (50%) of Outstanding Obligations rather than upon the direction of the Holders of twenty-five percent (25%) of Outstanding Obligations as provided in the Original Master Indenture will not go into effect until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations Outstanding. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Events of Default and Remedies—Events of Default, Acceleration; Annulment of Acceleration,” and “—Additional Remedies and Enforcement of Remedies” for a summary of such provisions. By purchasing the Bonds offered hereunder, the purchasers and Beneficial Owners will be deemed to have consented to amendment of each such provision.

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

Additional Indebtedness

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

For a description of certain events that are expected to require the incurrence of additional indebtedness of the Corporation, see “SERVICES, FACILITIES AND OPERATIONS—The Project, SHC’s Long-Range Master Plan and Additional Capital Needs” in APPENDIX A attached hereto.

Bondholders’ Risks

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

Availability of Documents

Copies of the Amended and Restated Master Indenture of Trust, Supplement No. 32, the Indenture, the Loan Agreement, Obligation No. 32 and the Continuing Disclosure Agreement, each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the corporate offices of the Corporation or at the designated corporate trust office of the 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 California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of

Title 2 of the California Government Code (the “Act”). The intent of the State 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 State Senate Rules Committee, the Speaker of the State Assembly and the Governor of the State. The Chairman of the Authority appoints the Executive Director.

Outstanding Indebtedness of the Authority

As of March 31, 2012, the Authority had issued obligations aggregating \$27,874,077,017 in original principal amount and had outstanding obligations in the aggregate principal amount of \$11,438,854,870.

THE BONDS

The following is a summary of certain provisions of the Bonds. A more complete summary of certain provisions of the Bonds is set forth in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—INDENTURE.” Reference is made to the Bonds for the complete text thereof and to the Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference.

General

The Bonds will be issued only as fully registered bonds and, when issued, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC, as nominee of DTC. DTC will act as securities depository for the Bonds. Initially, the Bonds will be issued in the Windows Interest Rate Period. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$100,000 and any integral multiple of \$5,000 in excess of \$100,000 during a Daily Interest Rate Period, a Weekly Interest Rate Period, a Two-Day Interest Rate Period, a Windows Interest Rate Period or a Short-Term Interest Rate Period, or \$5,000 and any integral multiple thereof during a Long-Term Interest Rate Period or an Index Floating Rate Period. Principal and Purchase Price of and interest and premium, if any, on the Bonds will be payable by the Trustee to DTC, which is obligated, in turn, to remit principal, Purchase Price, interest and premium, if any, to DTC Participants, upon DTC’s receipt of funds and corresponding detail information from the Trustee or the Authority, for subsequent disbursement to Beneficial Owners of such Bonds. 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 DTC Indirect Participants or others will distribute to the Beneficial Owners payments of principal and Purchase Price of and interest and premium, if any, on the Bonds or any redemption, mandatory tender 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.

Summary of Certain Provisions of the Bonds

The Indenture allows for the Bonds to bear interest at one of seven different types of interest rates: (i) the Daily Interest Rate, (ii) the Weekly Interest Rate, (iii) the Commercial Paper Rate (the interest rate on Bonds during a Short-Term Interest Rate Period), (iv) the Long-Term Interest Rate, (v) the Two-Day Interest Rate, (vi) the

Windows Interest Rate and (vii) the Index Floating Rate. As described above, initially the Bonds will be issued in the Windows Interest Rate Period. The interest rate will be determined in accordance with the rate determination method specified in the Indenture for such Interest Rate Period. At any one time, the Bonds may be in only one Interest Rate Period. Subject to the limitations and conditions of the Indenture, unless bearing interest at a Long-Term Interest Rate to maturity, the Bonds may be converted, in whole but not in part, to a different Interest Rate Period at the direction of the Corporation. In connection with any conversion of the Interest Rate Period for the Bonds, the Corporation may elect to rescind the conversion on any date on or prior to 10:00 a.m., New York City time, on the second Business Day preceding the effective date of the proposed conversion. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—INDENTURE” for a description of the terms of the Bonds in each Interest Rate Period.

Liquidity for Payment of Purchase Price

Funds for the purchase of Bonds that have been tendered for purchase, whether at the option of the Holders or pursuant to the mandatory tender requirements of the Indenture, will be provided, first, from the proceeds of the remarketing of such Bonds and then, to the extent remarketing proceeds are insufficient to provide all funds required to purchase such Bonds, from funds drawn under a Liquidity Facility, if any Liquidity Facility is then in effect, or from funds provided by the Corporation. **At the time of the issuance of the Bonds, the obligation to purchase the Bonds upon optional or mandatory tender will not be supported by a Liquidity Facility or any other liquidity agreement. While the Bonds are in the Windows Interest Rate Period, the failure of the Corporation to purchase Bonds on a Windows Mandatory Tender Date shall constitute an Event of Default under the Indenture. While the Bonds are in any other Interest Rate Period, the failure of the Corporation to purchase Bonds that are tendered and not remarketed shall constitute an Event of Default under the Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—INDENTURE—Optional Tender Provisions—Windows Interest Rate Period,” “—Mandatory Tender Provisions—Mandatory Tender During Windows Interest Rate Period” and “—General Provisions Relating to Tenders—Inadequate Funds for Tender.”**

Delivery of Purchased Bonds. Subject to compliance with the applicable provisions of the Securities Depository when the book-entry system is in effect, the Remarketing Agent shall give telephonic or telegraphic notice, promptly confirmed by a written notice, to the Trustee on each date on which Bonds shall have been purchased upon optional or mandatory tender, specifying the principal amount of such Bonds, if any, remarketed by it pursuant to the Indenture, along with a list of such purchasers showing the names and authorized minimum denominations in which such Bonds shall be registered and the addresses and social security or taxpayer identification numbers of such purchasers. By 1:30 p.m., New York City time, on the Purchase Date, a principal amount of Bonds equal to the amount of Purchased Bonds purchased with moneys from the Remarketing Proceeds Account shall be made available by the Trustee to the Remarketing Agent. The Trustee shall prepare each Bond to be so delivered in such names as directed by the Remarketing Agent pursuant to the Indenture.

A principal amount of Bonds equal to the amount of Purchased Bonds purchased from moneys, if any, on deposit in the Liquidity Facility Account shall be delivered on the day of purchase by the Trustee to or as directed by the Liquidity Facility Provider, if any. The Trustee shall register such Bonds in the name of the Liquidity Facility Provider, if any, or as otherwise provided in the Liquidity Facility, if any.

A principal amount of Bonds equal to the amount of Purchased Bonds purchased from moneys on deposit in the Corporation Purchase Account shall be delivered on the day of such purchase by the Trustee to or as directed by the Corporation. The Trustee shall register such Bonds in the name of the Corporation or as otherwise directed by the Corporation.

Inadequate Funds for Tenders. Except as otherwise described above with respect to Bonds in the Windows Interest Rate Period, if sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, (i) the failure to pay the Purchase Price of all tendered Bonds when due and payable shall constitute an Event of Default, (ii) all tendered Bonds shall be returned by the Trustee to their respective Holders and (iii) all Bonds shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all the Bonds are purchased as required in accordance with the Indenture. Any moneys deposited with the Remarketing Agent or transferred to the Trustee with respect to such failed remarketing shall be

returned to the party depositing those moneys. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider (if any), the Credit Facility Provider (if any) or the Corporation to effect a subsequent successful remarketing of any tendered Bonds. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—INDENTURE—Optional Tender Provisions—Windows Interest Rate Period,” “—Mandatory Tender Provisions—Mandatory Tender During Windows Interest Rate Period” and “—General Provisions Relating to Tenders—Inadequate Funds for Tender.”

Special Considerations Relating to the Bonds

The Remarketing Agent is Paid by the Corporation. The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as set forth in the Indenture. The Remarketing Agent is appointed by the Corporation and is paid by the Corporation for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

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

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

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

Under Certain Circumstances, the Remarketing Agent May Resign Without a Successor Being Named. Under certain circumstances the Remarketing Agent may resign, upon 30 days’ prior written notice, without a successor having been named, subject to the terms of the Indenture and the Remarketing Agreement. Furthermore,

under certain circumstances the Remarketing Agent may immediately cease to offer and sell the Bonds upon the occurrence of certain events.

Holders Do Not Have the Right to Own the Bonds for Any Specific Period of Time. As a result of a decision by a Holder of Bonds to optionally tender its Bond or a decision by the Corporation to convert the Bonds to another Interest Rate Period, to cause a mandatory tender or to optionally redeem the Bonds in whole or in part, a Holder may be required to tender its Bond or its Bond may be optionally redeemed upon 10 days’ notice or less. In determining whether to purchase the Bonds, investors should consider the risk to the duration and liquidity of their portfolios which may result from their actions or the actions of others.

Redemption

Optional Redemption. The Bonds may be subject to redemption prior to their stated maturity, subject to the provisions of the Indenture for the applicable Interest Rate Period. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—INDENTURE—Redemption Provisions—Terms of Redemption.”

Extraordinary Optional Redemption. The Bonds are subject to redemption prior to their stated maturity, at the option of the Authority (which option will be exercised upon Request of the Corporation) in whole or in part on any date, from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Redemption Fund, at a Redemption Price equal to the principal amount thereof, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time at which there is a Credit Facility in effect.

Mandatory Redemption. The Bonds are also subject to redemption prior to their stated maturity in part, by lot, from Sinking Fund Installments, on any August 15, on or after August 15, 2039, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

Redemption Date (August 15)	Sinking Fund Installment
2039	\$ 535,000
2040	630,000
2041	990,000
2042	1,815,000
2043	1,905,000
2044	1,950,000
2045	2,040,000
2046	2,105,000
2047	8,715,000
2048	9,175,000
2049	9,595,000
2050	10,045,000
2051 [†]	10,500,000

[†] Final maturity.

Notice of Redemption. Notice of redemption will be mailed by first class mail by the Trustee, not less than 20 days and not more than 60 days prior to the redemption date, to the Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption shall state the date of such notice, the date of issuance of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity date, the CUSIP number, if any, any conditions to the redemption and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each notice shall also state that redemption is conditioned upon receipt by the Trustee of sufficient funds on the redemption date (which shall be Available Moneys if required by the Indenture) to pay the Redemption Price of the Bonds to be redeemed. The failure by the Trustee to mail notice of redemption to any one or more of the Holders of any Bonds designated for

redemption shall not affect the validity or sufficiency of the proceedings for the redemption of the Bonds with respect to the Holder or Holders to whom such notice was mailed. Notice of redemption having been given in accordance with the Indenture and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, the Bonds so called for redemption shall become due and payable at the Redemption Price (and accrued interest) specified in such notice, interest on such Bonds shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Holders of said 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 Trustee for such payment. Any notice of optional redemption may be made conditional on such conditions as may be specified by the Corporation.

Rescission of Notice of Redemption. Any notice of optional redemption given pursuant to the provisions of the Indenture may be rescinded by written notice given to the Trustee by the Corporation no later than four (4) Business Days prior to the date specified for redemption. The 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.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair; provided, however, that Liquidity Facility Bonds, if any, shall be redeemed prior to any other Bonds.

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 bears interest in a Long-Term Interest Rate Period and 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 Trustee 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 provisions of the Indenture described above under the caption "Notice of Redemption." 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 Trustee in immediately available funds and the Trustee shall pay the same to the Holders of Bonds being purchased against delivery thereof. Following such purchase, the 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.

Notice to Bondholders

All notices to Bondholders required by the Indenture will be deemed to have been sufficiently given or served for all purposes under the Indenture by being delivered by first-class mail, by overnight delivery or by email transmission, facsimile transmission or other electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any of the aforementioned electronic methods.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority, payable solely from the Revenues pledged under the Indenture for such payment. Revenues consist primarily of Loan Repayments made by the Corporation pursuant to the Loan Agreement in amounts sufficient to pay the principal or purchase price of and interest on the Bonds, when such become due. The Authority will assign its right, title, and interest in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any administrative fees and expenses to the extent payable to the

Authority, the right of the Authority to be reimbursed or indemnified pursuant thereto and the right to receive certain notices and opinions, to give consents or approvals and to make inspections) and in Obligation No. 32 to the Trustee. The obligation of the Corporation to make the Loan Repayments will be further evidenced and secured by Obligation No. 32. 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. 32 is being issued by the Corporation under and pursuant to the Master Indenture on a parity with all other Obligations issued or to be issued thereunder. See “Outstanding Obligations Under the Master Indenture” below. All Members of the Obligated Group are required to make payments on Obligation No. 32 in amounts sufficient to pay the principal of and interest on the Bonds when due. For a discussion of entry into or withdrawal from the Obligated Group, see APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Obligated Group Membership and Withdrawal.”

Outstanding Obligations Under the Master Indenture. Upon the issuance of the Bonds, the Other Variable Rate Bonds and the Fixed Rate Bonds, in addition to the Series 2012 Obligations, there will be eight other Obligations outstanding under the Master Indenture securing indebtedness outstanding in the total aggregate principal amount of \$720,630,000 and securing the Corporation’s obligations to make regularly scheduled payments and, in limited circumstances, settlement payments, under six existing interest rate swap agreements. For a discussion of the interest rate swap agreements that the Corporation has entered into, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Arrangements.”

Security for Obligations. All Obligations issued and outstanding under the Master Indenture, including Obligation No. 32, which evidences and secures the Corporation’s obligations under the Loan Agreement, the Variable Rate Obligation, the Bank Obligation and the Fixed Rate Obligation, 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 “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Security and Enforceability—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 Bank”). 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 Bank are required to execute and have executed account control agreements

(each, an “Account Control Agreement”) to create this agency relationship. See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Gross Revenue Fund.”

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 Liens, 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 APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture—Covenants—Limitations on Additional Indebtedness.”

Other Master Indenture Covenants. In addition to the security and other provisions described above, the Master Indenture contains provisions, covenants and restrictions related to debt coverage, mergers, consolidations, sales and conveyances, 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 “Security and Enforceability—Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes;” “Enforceability of the Loan Agreement;” and “Enforceability of Security Interests” 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 trustee, including the Trustee and the Master 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 a 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 a trustee therein. The rights of the 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 date of issuance of the Bonds, 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 Master Trustee or 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 Master Trustee or the Corporation may not be enforced under the Federal Bankruptcy Code or applicable state fraudulent transfer or conveyance statutes if the obligation to pay is incurred without “fair consideration” or “reasonably equivalent value” to the obligor-Member and if the incurrence of the obligation renders the Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are matters of judicial discretion based upon subjective standards and may vary under the Federal Bankruptcy Code and other statutes that may be applicable.

In addition a court could determine, in the event of a bankruptcy of a Member, that payments made on Obligation No. 32 by a bankrupt Member could constitute payments to or for the benefit of an insider, within the meaning of Section 547(b) of the Federal Bankruptcy Code, which payments, if made within one year of the filing of the bankruptcy petition, might be recoverable by the bankruptcy court from the owners of the Bonds.

If a court were to find that a Member did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness evidenced by Obligation No. 32 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. 32.

Enforceability of the Loan Agreement. The legal right and practical ability of the 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. 32, have no security interest in such funds.

Limited Liability of the Authority

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION THEREOF BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF THE BONDS OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 32 AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR PURCHASE PRICE OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE PLAN OF FINANCE

The Series 2012 Bonds

The Corporation anticipates the issuance of the Bonds, the Other Variable Rate Bonds and the Fixed Rate Bonds in a total aggregate principal amount not to exceed \$568.3 million for the purposes described below.

A portion of the proceeds of the Fixed Rate Bonds, in the approximate amount of \$4,800, will be applied pay costs of issuance related to the Fixed Rate Bonds. The Corporation will pay all other costs of issuance related to the Series 2012 Bonds, including underwriter's compensation, from its internal funds.

The Bonds

The proceeds of the Bonds will be used to finance the Project. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—The Project, SHC’s Long-Term Master Plan and Additional Capital Needs.”

The Other Variable Rate Bonds

The Corporation currently anticipates that the Other Variable Rate Bonds will be issued by the Authority for the benefit of the Corporation, the proceeds of which will be used to finance a portion of the costs of the Project. The Other Variable Rate Bonds, in the total aggregate principal amount of \$100 million, are expected to be placed directly with a financial institution.

The Fixed Rate Bonds

The Corporation currently anticipates that the Fixed Rate Bonds will be issued by the Authority for the benefit of the Corporation, the proceeds of which will be used to finance a portion of the costs of the Project, to refinance certain outstanding bonds previously issued by the Authority for the benefit of the Corporation and to pay certain costs of issuance related to the Fixed Rate Bonds as described above.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Series 2012 Bonds.

	The Bonds	The Other Variable Rate Bonds	The Fixed Rate Bonds	Total Series 2012 Bonds
<i>Estimated Sources of Funds</i>				
Par Amount	\$60,000,000	\$100,000,000	\$408,320,000	\$568,320,000
Net Original Issue Premium	–	–	39,973,722	39,973,722
Total	<u>\$60,000,000</u>	<u>\$100,000,000</u>	<u>\$448,293,722</u>	<u>\$608,293,722</u>
<i>Estimated Uses of Funds</i>				
Project Fund	\$60,000,000	\$100,000,000	\$369,096,598	\$529,096,598
Escrow Fund	–	–	79,192,350	79,192,350
Costs of Issuance Fund ⁽¹⁾	–	–	4,774	4,774
Total	<u>\$60,000,000</u>	<u>\$100,000,000</u>	<u>\$448,293,722</u>	<u>\$608,293,722</u>

⁽¹⁾ Proceeds of the Fixed Rate Bonds to be applied to costs of issuance related to the Fixed Rate Bonds.

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each of the Corporation's fiscal years ending August 31, the amounts required to be paid by the Corporation for payment of the principal, whether by payment at maturity or upon sinking fund installment payments, and interest on the Bonds. The table also includes the debt service on the Other Variable Rate Bonds, the Fixed Rate 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 August 31	The Bonds			The Other Variable Rate Bonds			The Fixed Rate Bonds			Total Debt Service on Outstanding Bonds ⁽³⁾	Total Debt Service
	Principal	Interest ⁽¹⁾	Total Debt Service on the Bonds ⁽¹⁾	Principal	Interest ⁽²⁾	Total Debt Service on the Bonds ⁽²⁾	Principal	Interest	Total Debt Service on the Fixed Rate Bonds		
2012	-	\$ 386,148	\$ 386,148	-	\$ 825,082	\$ 825,082	-	\$ 3,872,222	\$ 3,872,222	\$40,687,214	\$ 45,770,666
2013	-	2,016,219	2,016,219	-	4,308,058	4,308,058	\$4,765,000	20,598,801	25,363,801	40,231,501	71,919,579
2014	-	2,019,000	2,019,000	-	4,314,000	4,314,000	5,035,000	19,835,850	24,870,850	41,702,067	72,905,917
2015	-	2,019,000	2,019,000	-	4,314,000	4,314,000	5,640,000	19,709,800	25,349,800	40,032,042	71,714,842
2016	-	2,021,781	2,021,781	-	4,319,942	4,319,942	5,435,000	19,427,800	24,862,800	41,497,825	72,702,348
2017	-	2,016,219	2,016,219	-	4,308,058	4,308,058	6,105,000	19,230,400	25,335,400	40,467,714	72,127,391
2018	-	2,019,000	2,019,000	-	4,314,000	4,314,000	5,920,000	18,925,150	24,845,150	40,409,179	71,587,329
2019	-	2,019,000	2,019,000	-	4,314,000	4,314,000	6,650,000	18,669,150	25,319,150	40,486,679	72,138,829
2020	-	2,021,781	2,021,781	-	4,319,942	4,319,942	6,975,000	18,336,650	25,311,650	39,537,707	71,191,079
2021	-	2,016,219	2,016,219	-	4,308,058	4,308,058	6,810,000	18,012,900	24,822,900	41,091,026	72,238,204
2022	-	2,019,000	2,019,000	-	4,314,000	4,314,000	7,555,000	17,740,500	25,295,500	39,654,804	71,283,304
2023	-	2,019,000	2,019,000	-	4,314,000	4,314,000	7,430,000	17,371,500	24,801,500	40,905,798	72,040,298
2024	-	2,021,781	2,021,781	\$1,885,000	4,323,052	6,208,052	-	17,000,000	17,000,000	44,176,082	69,405,915
2025	-	2,016,219	2,016,219	1,980,000	4,230,128	6,210,128	-	17,000,000	17,000,000	47,517,864	72,744,210
2026	-	2,019,000	2,019,000	2,060,000	4,150,673	6,210,673	-	17,000,000	17,000,000	47,488,854	72,718,527
2027	-	2,019,000	2,019,000	2,150,000	4,061,953	6,211,953	-	17,000,000	17,000,000	47,386,048	72,617,001
2028	-	2,021,781	2,021,781	2,240,000	3,974,803	6,214,803	230,000	17,000,000	17,230,000	47,344,382	72,810,965
2029	-	2,016,219	2,016,219	2,350,000	3,867,570	6,217,570	330,000	16,988,500	17,318,500	47,255,951	72,808,241
2030	-	2,019,000	2,019,000	2,445,000	3,771,678	6,216,678	380,000	16,972,000	17,352,000	47,222,323	72,810,000
2031	-	2,019,000	2,019,000	2,550,000	3,666,374	6,216,374	470,000	16,953,000	17,423,000	47,151,523	72,809,897
2032	-	2,021,781	2,021,781	2,660,000	3,561,430	6,221,430	550,000	16,929,500	17,479,500	47,090,725	72,813,436
2033	-	2,016,219	2,016,219	2,785,000	3,437,269	6,222,269	625,000	16,902,000	17,527,000	47,049,395	72,814,883
2034	-	2,019,000	2,019,000	2,900,000	3,322,049	6,222,049	850,000	16,870,750	17,720,750	46,854,804	72,816,603
2035	-	2,019,000	2,019,000	3,025,000	3,197,150	6,222,150	1,110,000	16,828,250	17,938,250	46,637,110	72,816,510
2036	-	2,021,781	2,021,781	3,155,000	3,071,069	6,226,069	5,495,000	16,772,750	22,267,750	42,305,675	72,821,275
2037	-	1,703,548	1,703,548	3,300,000	2,926,970	6,226,970	6,055,000	16,498,000	22,553,000	42,337,658	72,821,176
2038	-	1,578,000	1,578,000	3,440,000	2,788,869	6,228,869	3,820,000	16,195,250	20,015,250	45,002,354	72,824,473
2039	\$ 535,000	1,578,540	2,113,540	3,590,000	2,655,731	6,245,731	3,445,000	16,004,250	19,449,250	45,031,735	72,840,256
2040	630,000	1,566,717	2,196,717	3,745,000	2,499,113	6,244,113	4,030,000	15,832,000	19,862,000	44,535,944	72,838,775
2041	990,000	1,546,228	2,536,228	3,915,000	2,330,982	6,245,982	6,355,000	15,630,500	21,985,500	42,070,681	72,838,391
2042	1,815,000	1,523,154	3,338,154	4,080,000	2,160,286	6,240,286	11,595,000	15,312,750	26,907,750	36,351,487	72,837,677
2043	1,905,000	1,475,511	3,380,511	4,260,000	1,989,446	6,249,446	12,230,000	14,733,000	26,963,000	36,248,279	72,841,236
2044	1,950,000	1,427,410	3,377,410	4,445,000	1,803,151	6,248,151	12,495,000	14,121,500	26,616,500	36,597,687	72,839,748
2045	2,040,000	1,372,370	3,412,370	4,640,000	1,601,938	6,241,938	13,050,000	13,496,750	26,546,750	36,637,350	72,838,409
2046	2,105,000	1,320,674	3,425,674	4,840,000	1,404,298	6,244,298	13,490,000	12,844,250	26,334,250	36,833,935	72,838,157
2047	8,715,000	1,271,980	9,986,980	5,050,000	1,190,843	6,240,843	44,440,000	12,169,750	56,609,750	-	72,837,573
2048	9,175,000	1,044,639	10,219,639	5,270,000	974,793	6,244,793	46,430,000	9,947,750	56,377,750	-	72,842,182
2049	9,595,000	801,269	10,396,269	5,505,000	740,626	6,245,626	48,570,000	7,626,250	56,196,250	-	72,838,146
2050	10,045,000	550,467	10,595,467	5,740,000	499,810	6,239,810	50,805,000	5,197,750	56,002,750	-	72,838,027
2051	10,500,000	286,742	10,786,742	5,995,000	247,998	6,242,998	53,150,000	2,657,500	55,807,500	-	72,837,240
Total	\$60,000,000	\$67,889,397	\$127,889,397	\$100,000,000	\$122,723,193	\$222,723,193	\$408,320,000	\$620,214,723	\$1,028,534,723	\$1,493,831,403	\$2,872,978,716

(1) Assumes interest on the Bonds is payable at the related interest rate swap rate of 3.365% until 2036, and 2.63% thereafter to maturity.

(2) Assumes interest on the Other Variable Rate Bonds is payable at the related interest rate swap rate of 4.314% to maturity.

(3) Assumes interest on the Corporation's outstanding variable rate bonds is payable at the related interest rate swap rate of 3.627% to maturity.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation and future Members of the Obligated Group, if any, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority has not provided 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 has 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”).

In connection with the issuance of the Bonds, the Corporation, on behalf of the Obligated Group, will enter into a continuing disclosure agreement (the “Continuing Disclosure Agreement”) with U.S. Bank National Association, acting as Trustee and as dissemination agent. Pursuant to the Continuing Disclosure Agreement, the Corporation, for the benefit of Holders and Beneficial Owners of the Bonds, will agree to provide 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 2012 Fiscal Year (due January 28, 2013), and (ii) notices of the occurrence of certain enumerated events, as required by the Rule. The Annual Report and the notices of material events will be filed by the Corporation, in readable PDF or other acceptable electronic form, with the Electronic Municipal Market Access system (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”). See APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT” for the specific nature of the information to be contained in the Annual Report and the notices of material events. These covenants have been made in order to assist the Underwriter in complying with the Rule. All of the required information in accordance with the Rule with respect to the outstanding bonds issued for the benefit of the Corporation has been provided to the MSRB. Within the previous five years the Corporation has not failed to comply in any material respects with any previous undertaking to provide financial information and data, operating data or notices of material events, as required by the Rule. With respect to the annual report for the fiscal year ended August 31, 2007, the Corporation had timely made the filing with the dissemination agent, but it cannot be confirmed that the dissemination agent posted the filing to the Nationally Recognized Municipal Securities Information Repositories that were designated at the time.

The Corporation additionally has covenanted that it will file with EMMA (i) not later than 60 days after the end of each fiscal quarter (except the fourth fiscal quarter), certain unaudited financial information for the Obligated Group for such fiscal quarter prepared by the Corporation and (ii) for so long as any of the Bonds may be optionally or mandatorily tendered and the payment of the tender price is solely secured by the Corporation, not later than the 15th day of the second month following the end of each month of the Corporation’s fiscal year, a monthly liquidity report. See APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

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 Corporation specifically. These should be read together.

General

Except as noted under “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS,” the Bonds are payable from Loan Repayments made pursuant to the Loan Agreement and from funds provided under Obligation No. 32 and the Indenture. **No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the Loan Repayments and hence the debt service on the Bonds.**

The Corporation 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 (the “State”), 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), changes in the economy, demographic changes, availability of physicians, nurses and other health care 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. 32 and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation 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 condition 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. 32.

Federal Health Care Reform. Federal health care reform legislation was enacted in March 2010. See “Health Care Reform—Federal Health Care Reform.” This legislation addresses almost all aspects of hospital and provider operations, health care delivery and reimbursement and government enforcement, and could reduce the Obligated Group’s revenues, increase the Obligated Group’s expenses, alter the Obligated Group’s business strategy and practices or otherwise adversely impact its financial performance in a material way. Further, it is unclear how efforts to repeal the legislation and lawsuits challenging its constitutionality will be resolved.

Deficit Reduction. Efforts to reduce the federal deficit and balance the State budget will likely curb Medicare and Medicaid spending further, to the detriment of hospitals, physicians and other health care providers.

General Economic Conditions; Bad Debt, Indigent Care and Investment Performance. Health care providers are affected by the economic environment in which they operate. The current national economic difficulties have constrained corporate and personal spending, limited the availability of credit and increased the national debt and federal and state government deficits. Economic difficulties may have a negative effect on the market for the Obligated Group’s outstanding variable rate indebtedness or increase the rates of interest payable on such indebtedness. Employers may reduce their workforces or budgets for employee health care coverage or commercial and governmental insurers may seek to reduce payments to health care providers or curb utilization of health care services, resulting in decreases in insured patient volume and reductions in revenues. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Economic downturns and lower funding of Medicare and state Medicaid and other state health care programs may increase the number of patients who are insured, underinsured or otherwise unable to pay for some or all of their care. These conditions may give rise to increases in health care providers’ uncollectible accounts, or “bad debt”, and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Losses in pension and benefit funds may result in increased funding requirements. Potential failure of lenders, insurers or vendors may negatively impact the results of operations and the overall financial condition of health care providers. Philanthropic support may also decrease. For a discussion of these risks with regard to the Corporation, in particular the Corporation’s recent results of operations and statement of financial position and performance of the Corporation’s investments, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION.”

Interest Rate Swaps and Hedge Risk. Interest rate swaps have experienced negative trading patterns, causing many to cease to function effectively to hedge interest rate exposure. Some swap counterparties have

ceased to exist and others have suffered repeated downgrading and negative market perception. Further, certain swap arrangements may not be terminable except upon the payment of termination fees by the borrowing party, which may be substantial in amount. In the interim, negative mark-to-market valuation of certain swap arrangements must be recorded on a borrower's balance sheet. These factors may have a material adverse impact on hospitals and health systems involved in such financial arrangements. For a discussion of the interest rate swap agreements that the Corporation has entered into, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Arrangements."

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 may result in an inability to collect billed charges from these payers.

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

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic safety requirements mandated by the State 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. See APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—The Project, SHC's Long-Range Master Plan and Additional Capital Needs."

Medicare. Inpatient hospitals rely to a high degree on payment from the federal Medicare program. Recent changes in the underlying law and regulations, as well as in payment policy and timing, create uncertainty and could have a material impact on hospitals' payment stream from Medicare. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS is expected to take action in the future to decrease or restrain Medicare outlays for hospitals.

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, the financial condition of the State 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 with significant Medi-Cal patient volume.

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.

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. Shortages of physicians and nursing and other technical personnel exist to varying degrees in different regions of the country. The shortages are particularly acute in the fields of primary care and certain medical and surgical specialties. Such shortages may adversely affect hospitals and health care systems, which rely on skilled health care practitioners to deliver care. Studies have predicted that such shortages may be exacerbated in the future by decreased reimbursement and inadequate support for medical education. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur or worsen. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals and health care systems.

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

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

Proliferation of Competition. Hospitals increasingly face competition from specialty providers of care and ambulatory care facilities. Such competition 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 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 published information.

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.”

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 of Recent Financial Performance—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

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

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, in some cases, are broader than concerns about compliance with federal and state statutes and regulations and, in many cases, are examinations of core business practices of the health care organizations. Areas subject to 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 the IRS, state attorneys general, Congress, labor unions, 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. Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations, as part of health care reform generally. See “IRS Examination of Compensation Practices and Community Benefit” below.

IRS Examination of Compensation Practices and Community Benefit. For nearly the past decade, the IRS has been concerned about executive compensation practices of tax-exempt hospitals. In February 2009, the IRS issued its Exempt Organizations Hospital Compliance Project Final Report (the “IRS Final Report”), which examined tax-exempt hospitals’ practices and procedures with regard to compensation and benefits paid to their officers and other defined “insiders.” The IRS Final Report indicated that the IRS will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and, in certain circumstances, may conduct further investigations or impose fines on, such tax-exempt organizations.

The IRS also undertook a community benefit initiative directed at hospitals. The IRS Final Report determined that the reporting of community benefit by nonprofit hospitals varied widely, both as to types of programs and expenditures classified as community benefit and the measurement of community benefits. As a result, the IRS issued the revised IRS Form 990 that includes Schedule H, which is designed to provide uniformity regarding types of programs and expenditures reported as community benefit by nonprofit hospitals. As the IRS collects and reviews information from hospitals about the level and types of community benefit provided, the IRS may issue a more stringent interpretation of community benefit. Findings from Schedule H reportings may also revive proposals in Congressional committees which, from time to time, have been made, to codify the requirements for hospitals’ tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care. Additionally, the health reform legislation contains new requirements for non-profit hospitals in order to maintain their tax-exempt status.

State Attorney General. California nonprofit corporations, including the Corporation, are subject at all times to examination by the State Attorney General to ensure that the charitable purposes are being carried out.

California Auditor Investigation of Exempt Status of Nonprofit Hospitals. California’s Joint Legislative Audit Committee voted on August 24, 2011 to direct the California Bureau of State Audits to investigate whether the State’s nonprofit hospitals are providing enough charity care and community benefit to justify their tax-exempt status.

Financial Assistance and Charity Care. California law requires hospitals to maintain written policies about discount payment and charity care, and to provide copies of such policies to patients and the Office of Statewide Health Planning and Development. California hospitals are also required to follow specific billing and collection procedures.

Requirements Related to Indigent Care. General economic conditions affect the number of employed individuals who have health coverage and 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.

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

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

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 32.

Federal Budget Cuts

The recently enacted Budget Control Act of 2011 (the “BCA”) mandates significant reductions and spending caps on the federal budget for fiscal years 2012-2021. The BCA also created a Joint Select Committee on Deficit Reduction (the “Super Committee”) to develop a plan to further reduce the federal deficit by \$1.5 trillion on or before November 23, 2011. As the Super Committee failed to act on or before November 23, 2011, a 2% reduction in Medicare spending, among other reductions, will, absent intervention by Congress, be triggered to take effect in 2013. The reductions could be implemented disproportionately for hospitals and/or for teaching hospitals and could have an adverse effect on the financial condition of the Corporation, which could be material.

Health Care Reform

Federal Health Care Reform. As a result of the Patient Protection and Affordable Care Act as modified by the Health Care Education and Reconciliation Act of 2010 (the “ACA”), substantial changes have occurred and are anticipated to occur in the United States health care system. The ACA will affect the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. These provisions are slated to take effect at specified times over approximately the next decade, and, therefore, the full consequences of the ACA on the health care industry will not be immediately realized. The ramifications of the ACA may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the ACA may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

The changes in the health care industry brought about by the ACA will likely have both positive and negative effects, directly and indirectly, on the nation’s hospitals and other health care providers, including the Corporation. For example, the projected increase in the numbers of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the mandate for individuals to purchase insurance (commonly referred to as the “individual mandate”), could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. However, the ACA also provides for substantial reductions in payments to Medicare providers, both through reduction in the annual market basket updates and reduction or elimination of reimbursement for preventable patient readmissions and hospital-acquired conditions. The ACA similarly mandates that states no longer reimburse providers for specified provider-preventable conditions. The ACA also significantly reduces both Medicare and Medicaid disproportionate share hospital funding between 2011 and 2020.

The ACA also contemplates the formation of state “health insurance exchanges” that provide consumers with improved access to health insurance. These may have positive impact by increasing the availability of insurance. Conversely, employers or individuals may shift their purchase of health insurance to new plans offered through the exchanges, which may or may not reimburse providers at rates equivalent to rates the providers currently receive. The exchanges could also alter the health insurance markets in ways that cannot be predicted, and exchanges might, directly or indirectly, take on a rate-setting function that could negatively impact providers.

The ACA will likely affect some health care organizations differently from others, depending, in part, on how each organization adapts to the legislation’s emphasis on directing more federal health care dollars to integrated

provider organizations and providers with demonstrable achievements in quality care. The ACA proposes a value-based purchasing system for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The legislation also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including “accountable care organizations” and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded or their effect on health care organizations’ revenues or financial performance cannot be predicted.

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases in funding for enforcement and efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt a compliance and ethics program. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provides new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments. See also “Regulatory Environment” below.

Efforts to repeal or amend provisions of the ACA are pending in Congress and the constitutionality of the ACA is being challenged in courts across the country. More than 20 challenges to the ACA have been filed in federal courts. Some federal courts have upheld the constitutionality of the ACA, while other courts have held either the entire ACA or its requirement that individuals maintain health insurance to be unconstitutional. In September 2011, the Obama administration and 26 states filed separate petitions asking the United States Supreme Court to review a federal appeals court decision. In November 2011, the United States Supreme Court agreed to hear the appeals from the ruling of such federal appeals court, and on March 28, 2012, the Supreme Court concluded three days of argument on challenges to the ACA. In addition to considering the constitutionality of the individual mandate, the Supreme Court heard arguments on whether the Anti-Injunction Act bars the judiciary from considering the constitutionality of the mandate before it goes into effect, whether, if found unconstitutional, the individual mandate can be severed from the rest of the ACA, and whether the expansion of Medicaid under the ACA exceeds Congress’ spending powers. The Supreme Court is expected to rule in June 2012. It is not possible to predict the effect of a ruling by the Supreme Court on the ACA as a whole, and the ultimate outcomes of legislative attempts to repeal or amend the ACA and other legal challenges to the ACA are unknown.

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

Patient Service Revenues

The Medicare Program. Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS’s “Conditions of Participation” on an ongoing basis, as determined by the State and/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.

As the population ages, more people will become eligible for the Medicare program. Current projections indicate that demographic changes and continuation of current cost trends will exert significant and negative forces on the overall federal budget. The ACA institutes multiple mechanisms for reducing the costs of the Medicare program, including the following:

Overall Reduction in Hospital Payments. Beginning in federal fiscal year 2013, Medicare inpatient payments to hospitals will be reduced by 1%, progressing to 2% by federal fiscal year 2017. This reduction may be offset in part by new Medicare inpatient incentive payments commencing in federal fiscal year 2013 for hospitals that meet “value-based purchasing” standards for treatment of certain conditions.

Market Basket Reductions. Generally, Medicare payment rates to hospitals are adjusted annually based on a “market basket” of estimated cost increases, which have averaged approximately 2-4% annually in recent years. The ACA required automatic 0.25% reductions in the “market basket” for federal fiscal years 2010 and 2011, and calls for reductions ranging from 0.10% to 0.75 % each year through federal fiscal year 2019.

Market Productivity Adjustments. Beginning in federal fiscal year 2012 and thereafter, the ACA provides for “market basket” adjustments based on national economic productivity statistics. This adjustment is anticipated to result in an approximately 1% additional annual reduction to the “market basket” update.

Hospital Acquired Conditions Penalty. Beginning in federal fiscal year 2015, Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain “hospital-acquired conditions” will be reduced by 1% of what would otherwise be payable to each hospital for the applicable federal fiscal year.

Readmission Rate Penalty. Beginning in federal fiscal year 2012, Medicare inpatient payments to each hospital will be reduced based on the dollar value of that hospital’s percentage of preventable Medicare readmissions for certain medical conditions.

DSH Payments. Beginning in federal fiscal year 2014, hospitals receiving supplemental disproportionate share hospital (“DSH”) payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicare beneficiaries) are slated to have their DSH payments reduced by 75%. This reduction will be adjusted to add-back payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA go into effect. Separately, beginning in federal fiscal year 2014, Medicaid DSH allotments to each state will also be reduced, based on a methodology to be determined by DHHS, accounting for statewide reductions in uninsured and uncompensated care.

Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to Medicare Advantage plans. Payments to plans are frozen for fiscal year 2011 and thereafter will transition to benchmark payments tied to the level of fee-for-service spending in the applicable county. These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

Components of the 2009 federal stimulus package, the American Recovery and Reinvestment Act (“ARRA”), provide for Medicare incentive payments that began in 2011 to hospital providers meeting designated deadlines for the installation and use of electronic health information systems. For those hospital providers failing to meet a 2015 deadline, Medicare payments will be significantly reduced.

For information concerning the Medicare payments received by the Corporation for the fiscal years ended August 31, 2009, 2010 and 2011, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue.”

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, including reductions mandated by the ACA and the BCA, 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. For information regarding the impact of the ACA on payments to hospitals for inpatient services, see “The Medicare Program—Overall Reduction in Hospital Payments” above.

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 reimbursements. 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 predetermined 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 (including depreciation and interest) apportioned to Medicare patient use are paid by Medicare 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 Obligated Group Members’ 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. Direct medical education payments compensate teaching hospitals for the costs directly related to educating residents. Such costs include the residents’ stipends and benefits, the salaries and benefits of supervising faculty, other costs directly attributable to the medical education program and allocated overhead costs. Payments for direct medical education costs are calculated based upon set formulae taking into account hospital-specific medical education costs associated with each resident, the number of full-time equivalent residents, and the proportion of Medicare inpatient days to non-Medicare inpatient days. Indirect medical education payments compensate teaching hospitals for the higher patient care costs they incur relative to non-teaching hospitals. The calculation for both the direct part and the indirect part of Medicare payments for medical education reimbursement programs include certain limitations on the number and classification of full-time equivalent residents reimbursed by Medicare. From time to time, the direct and indirect medical education reimbursement programs have 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 such hospital’s most recent cost report period ended on or before December 31, 1996, and contained other provisions that limit reimbursement for both direct and indirect medical education costs. Reductions in the level of reimbursement for direct and indirect medical education costs could have a material and adverse effect on the financial condition of the Corporation.

Hospital Tax. In 2009, the State legislature enacted the Medi-Cal Hospital Provider Rate Stabilization Act and the Quality Assurance Fee Act, which imposed a temporary quality assurance fee (the “Provider Fee”) on the State’s general acute care hospitals excluding public hospitals and certain other exempt hospitals. This initial legislation made the Provider Fee effective for the period from April 1, 2009 through and including December 31, 2010. Subsequent State legislation extended the Provider Fee from January 1, 2011 through June 30, 2011 and again from July 1, 2011 through December 31, 2013. The Provider Fee amount for each non-exempt hospital is calculated using a methodology based on each hospital’s number of inpatient days during the approved federal fiscal years. The proceeds of the Provider Fee are used to earn federal financial participation monies, or matching funds, available under the Medicaid program. Together, Provider Fee proceeds and federal matching payments fund supplemental Medi-Cal payments to participating hospitals and payments to Medi-Cal managed care health plans, to be paid in turn to hospitals, and other payments, including direct grants to public hospitals and support for children’s health care coverage.

Under federal law, CMS approval is required for any state health care provider tax that is intended to provide the state portion for federal matching funds to take effect. CMS approved the initial Provider Fee and has approved the six-month extension of the Provider Fee through June 30, 2011, but has not yet approved the subsequent 30-month extension through December 31, 2013. Unless and until CMS approves this second extension, no Provider Fees will be collected or supplemental payments made to hospitals for the period after June 30, 2011. No assurances can be given as to whether the State will receive CMS’s approval for the thirty-month fee extension. For information about the Corporation’s expenses and revenues under the Provider Fee program, see APPENDIX A

– “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Management’s Discussion and Analysis of Recent Financial Performance.”

Sustainable Growth Rate Formula. The Balanced Budget Act of 1997 specifies a formula for establishing a yearly sustainable growth rate (“SGR”) of payments for physicians’ services under Medicare, and a 27.4% reduction in the SGR formula for physician reimbursement was scheduled to become effective on March 1, 2012. The Middle Class Tax Relief and Job Creation Act of 2012, enacted on February 22, 2012, freezes Medicare physician payment rates at 2011 levels until December 31, 2012. Absent additional congressional action prior to the end of year 2012 to repeal, modify or delay the date of effectiveness of the SGR formula, Medicare physician payment rates are scheduled to decrease in 2013. A reduction in Medicare physician reimbursement could have a material impact on the revenues of a hospital.

Recovery Audit Contractor Program. CMS has implemented a Recovery Audit Contractor (“RAC”) program on a nationwide basis where CMS contracts with private contractors to conduct post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. The ACA expands the RAC program’s scope to cover the Medicare Advantage and Medicaid programs. CMS also employs Medicaid Integrity Contractors to perform post-payment audits of Medicaid claims and identify overpayments. These programs tend to result in retroactively reduced payment and higher administration costs to hospitals. See “Medicare and Medicaid Audits” herein.

Medi-Cal Program. Medi-Cal is the Medicaid program in California. 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 the federal budget along with balanced-budget requirements in the State will likely negatively impact Medicaid funding. Federal and state budget proposals contemplate significant cuts in Medicaid spending or reduction in Medicaid provider reimbursement rates, which could negatively impact the revenues of a hospital.

The State 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 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. The State may also terminate without notice under certain circumstances (e.g., breach by the provider or failure to remain qualified under the Medi-Cal program). 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. Recent legislation has mandated that the California Department of Health Services develop a DRG payment system to be implemented by January 2013. The system is currently under development. The effect on Medi-Cal reimbursement cannot yet be predicted.

The ACA makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries. While management of the Corporation cannot predict the effect of these changes to the Medicaid program on the operations, results from operations or financial condition of the Obligated Group, historically Medicaid has reimbursed at rates below the cost of care. Therefore, increases in the overall proportion of Medicaid patients pose a risk. It is uncertain to what extent this risk may be mitigated if the increased Medicaid coverage replaces previously uncompensated patients.

For information concerning the Medi-Cal payments received by the Corporation, for the fiscal years ended August 31, 2009, 2010 and 2011, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue.”

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

refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs.

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

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

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

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

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, along with balanced budget requirements, have in the past and may in the future result in cutbacks to government health care programs. Failure by the California legislature to approve budgets prior to the start of a new fiscal year can also result in a temporary hold on or delay of Medi-Cal reimbursement. See APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue.”

California faces a continuing significant gap between the expected level of tax revenues and projected expenditures for the current and future fiscal years. The State budget for the 2011-2012 fiscal year included approximately \$2.6 billion in spending reductions from State health programs, including funding cuts of approximately \$2.0 billion to Medi-Cal. Also, funding cuts that will be triggered if the State does not achieve budgeted revenue levels could cause further reductions. The Governor’s proposed budget for the 2012-2013 fiscal year, issued in January 2012, included approximately \$840 million in additional expenditure reductions to the Medi-Cal program. The actual amount is subject to change depending on changes in projections of the total deficit and determinations of the California Legislature. It is impossible to predict what actions will be taken by the California Legislature, the Governor or citizen initiative in the upcoming fiscal year or future years to address California’s significant financial problems. It is possible that additional cuts in the levels and timing of health care provider reimbursement, including payments to hospitals under Medi-Cal, could materially adversely affect the Corporation.

The financial challenges facing California and the Medi-Cal program may negatively affect health care organizations in a number of ways. In October 2011, CMS approved California’s request for 10% reductions in Medi-Cal payments for certain outpatient services and for long term care. The ACA provides for significant expansions to the Medicaid program and additional funding. Such funding is conditioned, however, on the State’s maintaining specified beneficiary eligibility criteria, which may require additional State funding or prompt the State

to reduce provider reimbursement. The BCA may also shift further funding responsibility from the federal government to state governments, exacerbating the states' financial challenges. See "BONDHOLDERS' RISKS—Significant Risk Areas Summarized—General Economic Conditions; Bad Debt, Indigent Care and Investment Performance" and "Nonprofit Health Care Environment—Requirements Related to Indigent Care" herein.

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

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

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

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

Often, HMO and PPO 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 or PPO 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. In part to reduce costs, health plans are increasingly implementing, and offering to purchasing employers, tiered provider networks, which involve classification of a plan's network providers into different tiers based on care quality and cost. With tiered benefit designs, plan enrollees are generally encouraged, through incentives or reductions in copayments or deductibles, to seek care from providers in the top tier. Classification of a hospital in a non-preferred or lower tier by a significant payor may result in a material loss of volume. The new demands of dominant health plans and other shifts in the managed care industry may also reduce patient volume and revenue.

For information concerning the managed care payments received by the Obligated Group for the fiscal years ended August 31, 2009, 2010 and 2011, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue."

International Classification of Diseases, 10th Revision Coding System. In 2009, CMS published the final rule adopting the International Classification of Disease, 10th Revision coding system ("ICD-10"), requiring health care organizations to implement ICD-10 no later than October 2013. On February 16, 2012, DHHS announced their intention to delay the adoption of ICD-10 to October 2014. The new compliance deadline has not yet been disclosed. ICD-10 provides a common approach to the classification of diseases and other health problems,

allowing the United States to align with other nations to better share medical information, diagnosis, and treatment codes. In order to implement the ICD-10, staff will need to be retrained, processes redesigned, and computer applications modified as the current available codes and digit size will dramatically increase. Additionally, there is a potential for temporary coding and payment backlog, as well as potential increases in claims errors. Products and services will be developed by outside software vendors, clearinghouses and third-party billing companies to support and enable timely, complete and successful implementation of ICD-10. Delays in the required implementation may occur if such ICD-10 products and services are not available to health care organizations from these outside sources to allow for adequate testing and installation well in advance of the compliance deadline.

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 hospitals, the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the Corporation. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance are set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

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

Regulatory Environment

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

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

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

False Claims Act. The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim for payment or approval for payment for which the federal government provides, or reimburses at least some portion of the requested money or property. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government’s primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputational 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, durable medical equipment or pharmaceutical supply agreements and other transactions.

Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to \$250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program), or an “assessment” of three times the amount claimed may be imposed. The ACA amended the Anti-Kickback law to provide that a person may violate the Anti-Kickback Law without actual knowledge of or a specific intent to violate the statute, making prosecution under the anti-kickback standard easier. Settlements, fines, exclusion, penalties, reputational damage or other consequences arising from violations or alleged violations of the Anti-Kickback law could have a material adverse impact on a hospital.

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

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

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

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

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

HIPAA. HIPAA 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 requirements add costs and create potentially unanticipated sources of legal liability.

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

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.

The HITECH Act. Provisions in the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities' marketing communications.

Security Breaches and Unauthorized Releases of Personal Information. State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed.

In California, two medical privacy laws, Assembly Bill 211 ("AB 211" and Senate Bill 541 ("SB 541"), which became effective January 1, 2009, expand the State's medical privacy standards and provide new oversight mechanisms and penalties to enforce them. These laws penalize unlawful access, use or disclosure of patient's medical information, as well as unauthorized access, which the laws define as the inappropriate viewing of patient

medical information without the direct need for diagnosis, treatment or other lawful use. Administrative penalties under these laws may reach \$250,000 per violation or for each reported event.

State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

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

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

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

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

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

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

Health facilities may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and discharge of hazardous,

infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

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

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

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital could have materially adverse consequences for 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 physician groups and independent practice associations. Generally, the sponsoring health facility or health system is the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits. As separate operating units, integrated physician practices and medical foundations sometimes operate at a loss and require subsidy from the related hospital or health system.

These types of alliances are likely to become increasingly important to the success of hospitals in the future as a result of changes to the health care delivery and reimbursement systems that are intended to restrain the rate of increases of health care costs, encourage coordinated care, promote collective provider accountability and improve clinical outcomes. The ACA authorizes several alternative payment programs for Medicare that promote, reward or necessitate integration among hospitals, physicians and other providers.

Whether these programs will achieve their objectives and be expanded or mandated as conditions of Medicare participation cannot be predicted. However, Congress and CMS have clearly emphasized continuing the trend away from the fee-for-service reimbursement model, which began in the 1980s with the introduction of the prospective payment system for inpatient care, and toward an episode-based payment model that rewards use of evidence-based protocols, quality and satisfaction in patient outcomes, efficiency in using resources, and the ability to measure and report clinical performance. This shift is likely to favor integrated delivery systems, which may be better able than stand-alone providers to realize efficiencies, coordinate services across the continuum of patient care, track performance and monitor and control patient outcomes. Changes to the reimbursement methods and payment requirements of Medicare, which is the dominant purchaser of medical services, are likely to prompt equivalent changes in the commercial sector, because commercial payors frequently follow Medicare's lead in adopting payment policies.

While payment trends may stimulate the growth of integrated delivery systems, these systems carry with them the potential for legal or regulatory risks. Many of the risks discussed in “—Regulatory Environment” herein,

may be heightened in an integrated delivery system. The foregoing laws were not designed to accommodate coordinated action among hospitals, physicians and other health care providers to set standards, reduce costs and share savings, among other things. State law prohibitions, such as the bar on the corporate practice of medicine, or state law requirements, such as insurance laws regarding licensure and minimum financial reserve holdings of risk-bearing organizations, may also introduce complexity, risk and additional costs in organizing and operating integrated delivery systems. Tax-exempt hospitals also face the risk in affiliating with for-profit entities that the IRS will determine that compensation practices or business arrangements result in private benefit or private use or generate unrelated business income for the hospitals.

In addition, integrated delivery systems present business challenges and risks. Inability to attract or retain participating physicians may negatively affect managed care, contracting and utilization. The technological and administrative infrastructure necessary both to develop and operate integrated delivery systems and to implement new payment arrangements in response to changes in Medicare and other payor reimbursement is costly. Hospitals may not achieve savings sufficient to offset the substantial costs of creating and maintaining this infrastructure.

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 reimbursement 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 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.

For example, 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.

Contracts with Payors. There is no assurance that reimbursement contracts of the Corporation, its affiliates or their physicians with HMOs, PPOs or other third-party payors will be maintained, that other similar contracts will be obtained in the future, or that payments from such payors will be sufficient to cover all of the costs that the Corporation and its affiliates incur in providing services to their beneficiaries. Failure to execute and maintain such

contracts could have the effect of reducing the patient base or health care revenues of the Corporation and its affiliates. Conversely, participation may maintain or increase the patient base, but may result in reduced payments.

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

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

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

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

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

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

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

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

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

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

Outsourcing of Information Management. The Corporation relies on a number of outside vendors to manage information on its behalf. Pursuant to certain of these arrangements, vendors have access to personal information of the Corporation's patients. Even though the Corporation takes many precautions against the unauthorized use and disclosure of individually identifiable information by its vendors, including through the terms of its contracts and security requirements and through security audits and vulnerability assessments, it does not control the actions and practices of outside entities. In addition, despite the security measures the Corporation has in place to ensure compliance with applicable laws and rules, its facilities and systems and those of its third-party service providers may be vulnerable to security breaches, acts of vandalism or theft, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Noncompliance with any privacy laws or any security breach involving the misappropriation, loss or other unauthorized use or disclosure of sensitive or confidential health or other personal information, whether by the Corporation or by one of its vendors, could have a material adverse effect on the Corporation's business, reputation and results of operations, and could result in any or all of the following: material fines and penalties; compensatory, special, punitive, and statutory damages; consent orders regarding privacy and security practices; and adverse actions against the Corporation's licenses to do business.

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 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 ruling, interpretation or policy of the IRS.

The ACA also contains new requirements for tax-exempt hospitals. Under the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy. In addition, the United States Treasury Department is required to review information about each tax-exempt hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

The Corporation participates in a variety of joint ventures and transactions with physicians either directly or indirectly. 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 ventures and other means of recruiting and retaining physicians. The IRS's hospital audit guide instructs field agents to review numerous activities and arrangements, such as these, for compliance with a hospital's tax-exempt status. Management believes that the 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 an ongoing audit program covering tax-exempt health care organizations. Some audits, particularly of larger organizations, 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. Audits can examine a wide range of possible issues, including tax-exempt bond financing, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

Effective with the 2009 tax year, tax-exempt organizations must complete new schedules to IRS Form 990-Return of Organizations Exempt From Income Tax, which create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K requires detailed information related to certain outstanding bond issues of tax-exempt borrowers, including information regarding use of proceeds and arbitrage and private business use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations' officers, directors, trustees, key employees, and other highly compensated employees. It is possible that the IRS could use the information reported to the IRS concerning the Corporation or any future Member of the Obligated Group to select the Corporation or future Member of the Obligated Group for audit of its tax-exempt status or 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 the Corporation would likely 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 and other reasons, loss of tax-exempt status of the Corporation could have a material adverse effect on the financial condition of the Obligated Group.

In lieu of, or in addition to, 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. Among the persons (and entities) treated as 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 directly 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 these “intermediate sanctions” rules.

State and Local Tax Exemption. In California it is possible that the California Franchise Tax Board or the Attorney General could review the income tax exemption of the Corporation or any future Member of the Obligated Group. 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 federal, 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 and rulings 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 in the charitable organization sector, with specific review of private business use, among other matters. As indicated above, effective with the 2009 tax year, 501(c)(3) borrowers must complete new Schedule K to Form 990, which requires detailed information related to certain outstanding bond issues, including information regarding use of proceeds and arbitrage and private business use compliance. It is possible that responses by the Corporation or any future Member of the Obligated Group to Schedule K could lead to an IRS audit, or an IRS audit could be initiated independently of responses to Schedule K, which in either case could adversely affect the market value of the Bonds or of other outstanding tax-exempt indebtedness of the Obligated Group.

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.

Proposed Legislation Regarding Limitations or Elimination of Tax-Exempt Status of Interest on the Bonds. Pending or future legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and pending or future proposals, whether or not enacted, may also affect the economic value of the federal or state tax exemption or the market value of the Bonds. As one example, the Obama Administration recently announced a legislative proposal which for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could eliminate or significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or future federal or State tax legislation, rulings or litigation, as to which Bond Counsel expresses no opinion.

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’s Hospital Seismic Safety Act (the “Seismic Safety Act”) requires each acute care hospital facility in the State either to comply with new hospital seismic safety standards on or before a deadline specified by the State or to cease acute care operations in noncompliant facilities. The deadline for compliance varies depending on a hospital facility’s classification within one of five categories established by the State. Classification is a factor of the earthquake risk in the facility’s geographic area and the structural attributes of a hospital facility. The Seismic Safety Act requires hospital facilities in the highest category of risk (those that are considered hazardous and at risk of collapse or significant loss of life in the event of an earthquake) to be replaced or retrofitted to higher seismic safety standards by 2013, or later if the Office of Statewide Health Planning and Development (“OSHPD”) has approved an extension.

Extensions to the 2013 deadline for up to two years to January 1, 2015 may be obtained if the following qualifications are met: a hospital must have (i) begun construction when the extension is requested; (ii) submitted construction plans to OSHPD before January 1, 2010; (iii) obtained a building permit for construction by January 1, 2011; (iv) submitted to state officials a timetable for construction; and (v) made reasonable progress in meeting this timetable.

Effective January 1, 2011, the Seismic Safety Act was amended to authorize OSHPD to provide for an alternative extension from 2013 to January 1, 2016 for eligible hospitals that apply for the extension due to local planning delays. Other legislation allows OSHPD to grant two additional one-year extensions, until January 1, 2018, to facilities that meet certain criteria. In April 2011, the Seismic Safety Act was further amended to authorize OSHPD to provide for an additional extension, which allows an acute care hospital that has obtained a compliance extension to 2013 to extend its compliance deadline 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.

For information about the Corporation’s compliance with the Seismic Safety Act, see APPENDIX A – “INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SERVICES, FACILITIES AND OPERATIONS—The Project, SHC’s Long-Range Master Plan and Additional Capital Needs.”

Construction Risks. The Corporation has begun and will be undertaking substantial construction projects over the next several years to replace and renew its patient care facilities. Construction projects are subject to a variety of risks, including but not limited to strikes, shortages of materials and labor, adverse weather conditions, and delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals. 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 have historically inflated in California between 15% and 20% annually making some projects financially prohibitive.

Risks Related to Outstanding Variable Rate Obligations. In addition to the Variable Rate Bonds, 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 \$165.2 million of outstanding variable rate bonds issued on behalf of the Corporation have, and the Variable Rate Bonds will 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. Such bonds are not, and will not be, as applicable, supported by either a credit facility or a liquidity facility. If any variable rate bonds are tendered for purchase and not remarketed, the Corporation will be obligated to purchase such bonds.

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

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

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

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—Cash and Investments.”

Contributions. A negative change in economic conditions, including a recurrence of a recession, or declines in the public equities market or private investment holdings of potential philanthropy sources, may have an adverse impact on the Corporation’s total receipt of charitable contributions. Failure to collect committed donations or to receive sufficient additional pledges of support may impair the Corporation’s ability to complete the Project or to develop programs or services that are dependent on charitable contributions. No assurances can be given that the Corporation will receive charitable contributions as anticipated or consistent with historical levels.

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.

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

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

Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

In addition, Bond Counsel has relied, among other things, on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities 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 depends 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.

Current and 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 Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future 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 to the Authority. A complete copy of the proposed form of Bond Counsel's opinion is set forth as APPENDIX D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon 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 who undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement and for the Underwriter by, Sidley Austin LLP, San Francisco, California, which also undertakes 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. 32, or the pledge or application of any moneys or security provided for the payment of the Bonds.

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

The Authority

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

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings have assigned municipal bond ratings of "Aa3/P-1," "AA-/A-1+" and "AA-/F-1+" 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. 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 of the Corporation as of August 31, 2011 and 2010 and for each of the two years then ended, included in APPENDIX B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in APPENDIX B.

No audited or unaudited financial statements for any period prior to the fiscal year ended August 31, 2010 have been included in this Official Statement. For management's discussion regarding pre-fiscal year 2010 financial statements, see APPENDIX A – "INFORMATION CONCERNING STANFORD HOSPITAL AND CLINICS—SUMMARY OF FINANCIAL INFORMATION—Management's Discussion and Analysis of Recent Financial Performance."

UNDERWRITING

Pursuant to a Bond Purchase Contract (the "Purchase Contract"), Morgan Stanley & Co. LLC, as the Underwriter, has agreed to purchase the Bonds at a purchase price of \$60,000,000.00. The Corporation has agreed to pay the Underwriter underwriting compensation of \$291,933.61 with respect to the Bonds. The Purchase Contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriter and the Authority against certain liabilities. The Purchase Contract also provides that the Corporation will pay the fees of counsel to the Underwriter.

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

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 & Co. LLC, which is acting as Underwriter in this Transaction, also acts as an underwriter for LPCH and 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. 32 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 Trustee.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Corporation and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of the date of this Official Statement. The Authority furnished only the information contained under the headings “THE AUTHORITY” and “LITIGATION—The Authority” and, except for such information, makes no representation as to the adequacy, completeness or accuracy of this Official Statement or the information contained herein. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

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

APPENDIX A

**INFORMATION CONCERNING
STANFORD HOSPITAL AND CLINICS**

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TABLE OF CONTENTS

	<u>Page</u>
BACKGROUND AND ORGANIZATION	A-1
Introduction.....	A-1
Corporate Organization and Related Entities.....	A-1
History of the Corporation	A-2
Governance	A-3
Management.....	A-5
SERVICES, FACILITIES AND OPERATIONS	A-6
Principal Patient Services	A-6
The Project, SHC’s Long-Range Master Plan and Additional Capital Needs	A-8
The School of Medicine	A-9
Operational Relationships Among the Corporation, Stanford University, LPCH and UHA.....	A-10
Bed Complement	A-12
Description of Admitting Medical Staff	A-13
Service Area.....	A-15
Service Area Map	A-16
Market Strategy.....	A-19
Community Physician Network.....	A-20
Utilization	A-21
SUMMARY OF FINANCIAL INFORMATION	A-22
Management’s Discussion and Analysis of Recent Financial Performance	A-25
Capitalization	A-28
Cash and Investments	A-29
Liquidity.....	A-30
Debt Service Coverage	A-31
Interest Rate Swap Arrangements.....	A-31
Sources of Revenue.....	A-32
Arrangements with Managed Care Plans.....	A-33
Hospital Fee Program	A-33
ACCREDITATION, LICENSURE, MEDICARE AND MEDICAL CERTIFICATION	A-33
PROFESSIONAL LIABILITY AND OTHER INSURANCE.....	A-34
LITIGATION AND REGULATORY MATTERS	A-34
EMPLOYEES	A-35

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BACKGROUND AND ORGANIZATION

Introduction

Stanford Hospital and Clinics (the “Corporation” or “SHC”) is a principal teaching affiliate of the Stanford University School of Medicine (the “School of Medicine”) and provides primary and specialty health services to adults, including cardiac care, cancer treatment, solid organ transplantation services, orthopedics and neurosciences services. The Corporation, together with Lucile Salter Packard Children’s Hospital at Stanford, operates the clinical settings through which 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 (“Stanford University”) adjacent to the School of Medicine in Palo Alto, California. Other Clinics are located elsewhere on campus and off campus in neighboring communities. During the fiscal year ended August 31, 2011, the Corporation treated more than 51,000 patients in its emergency room, admitted more than 24,000 inpatients and recorded more than 398,000 outpatient transactions. From these patient care activities, the Corporation reported total revenues of \$2.2 billion and income from operations of \$173 million for the fiscal year ended August 31, 2011. At August 31, 2011, the Corporation’s total assets were approximately \$2.7 billion, total liabilities were approximately \$1.4 billion and net assets were approximately \$1.3 billion.

The Corporation is solely responsible for the payment of principal of and interest on the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2012 Series C (the “Bonds”), as described in this Official Statement. Neither Stanford University nor any of its affiliates other than the Corporation is obligated to pay debt service on the Bonds. Stanford University and the Corporation are not co-guarantors of the debt of each other, and the Corporation and Stanford University receive separate credit ratings from rating agencies.

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

Corporate Organization and Related Entities

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

Set forth below is a listing of other entities to which the Corporation is related, or in which it has interests, and a brief description of the nature of those relationships or interests. For additional information, see Note 1 of the audited consolidated financial statement of the Corporation included as Appendix B to the Official Statement.

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 significant 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 266-bed pediatric and obstetric hospital and related outpatient clinics on Stanford University's campus adjacent to the Hospital 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, LPCH and UHA" herein. Stanford University is the sole member of LPCH.

SUMIT Insurance Company Ltd. ("SUMIT"). SUMIT, a company organized and licensed under the laws and jurisdiction of Bermuda, provides claims-made liability coverage to the Corporation and LPCH for Healthcare Professional, Comprehensive General, Miscellaneous Errors/Omissions and Employment Practices liability. See "PROFESSIONAL LIABILITY AND OTHER INSURANCE" herein for additional information. The governing body of SUMIT consists of eight voting directors of whom three are appointed by the Corporation, two by LPCH and the remainder by the appointees of the Corporation and LPCH. The sole shareholder of SUMIT is SUMIT Holding International LLC ("SHI"), a limited liability company organized and licensed under the laws and jurisdiction of Delaware and a tax-exempt organization. The sole members of SHI are the Corporation and LPCH, which hold ownership interests of 80% and 20%, respectively.

University HealthCare Alliance ("UHA"). UHA is a California nonprofit public benefit corporation that owns and operates multi-specialty clinics in support of the charitable, education and research purposes of SHC and the School of Medicine. SHC and Stanford University are the corporate members of UHA and each holds a 50% membership interest. UHA has received a determination from the Internal Revenue Service that it is a tax-exempt organization under Section 501(c)(3) of the Code. For further information about UHA, see "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA" and "—Market Strategy—Community Physician Network" herein.

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 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 ("EMC"), a California nonprofit public benefit corporation operating a 403-bed hospital in Turlock, California, operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. The Corporation's and EMC's membership interests in SEROC are 60% and 40%, respectively.

History of the Corporation

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

From 1958 to 1997. Stanford University and the City of Palo Alto organized the Corporation in 1957, and the Corporation began operation of Stanford University Hospital the following year, when Stanford University moved its School of Medicine from San Francisco to its present location on the Palo Alto campus. The Corporation added the Clinics in 1994 when the Corporation assumed operation of the clinics staffed by School of Medicine faculty members and previously operated by Stanford University.

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 University and the University of California as members. In connection with this affiliation, 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 of 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. In connection with the termination, the Corporation replaced UCSF Stanford Health Care as a Member of the Obligated Group.

2000 to present. The Corporation resumed operating the Hospital and Clinics on April 1, 2000. During the period since April 1, 2000, the Corporation has focused on strengthening its operating performance, developing initiatives with the School of Medicine, pursuing growth in strategic clinical services and providing high quality care to patients. In furtherance of those objectives, the Corporation has opened major clinical facilities on and off campus. On campus, the Corporation opened a 165,000 square-foot Cancer Center in March 2004, consolidating all outpatient cancer medical services into one facility, making treatment more convenient for patients and giving physicians greater opportunities to coordinate optimal patient care. Off campus, the Corporation opened an outpatient imaging center in 2008, which offers diagnostic imaging services, and opened a 360,000 square-foot facility named the Stanford Medicine Outpatient Center (the “Outpatient Center”) in 2009. Short-stay procedures and other clinical services are provided at the Outpatient Center. The Outpatient Center’s core component is an orthopedic center, and the facility also houses an imaging center, sleep center and dermatology center. In October 2009, the Corporation completed a multi-year upgrade of its clinical information systems. In addition, the Corporation developed a master plan and secured local and state approvals for a major facilities replacement project described under the caption “The Project, SHC’s Long-Range Master Plan and Additional Capital Needs” herein.

In 2011, the Corporation launched its Corporate Partners Program and recruited six leading Silicon Valley technology companies to join in providing philanthropic support for development of the Corporation’s facilities replacement project. Apple, eBay, HP, Intel, Intuit and Oracle are founding members of the Corporate Partners Program. Their contributions are projected to provide as much as \$150 million over the next 10 years to help build the replacement facilities and create a global model for patient-centered, technologically advanced health care.

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 between seven and twenty-four elected directors, as determined by Stanford University. Currently, the Board consists of six *ex officio* directors and eighteen directors elected by Stanford University. Each director has one vote. With the exception of the community physician designee, who serves for a one year term, elected directors serve for three-year terms and may serve up to three consecutive three-year terms. Following a one-year waiting period, directors having served three consecutive terms are eligible for reappointment. Several of the directors currently serving on the Board have rotated off the Board for one or more years and have subsequently been reelected to the Board. The Board has three classes of directors that are equally sized to the extent possible, and holds staggered elections, so that in each year the terms of only a minority of directors expire. The current elected and *ex officio* directors, the year of each director’s commencement of service

on the Board, the year of expiration of each director's current term and each director's occupation are as follows:

Name	Service Commenced	Year of Expiration of Current Term	Occupation
Marc Andreessen	2006	2012	Technology entrepreneur
Susan L. Bostrom	2004	2013	Former senior executive of a large public corporation
Mariann Byerwalter, Chair	1999	2012	Chairman of an advisory group
Bruce Cozadd	2004	2013	Chairman and CEO of a publicly traded pharmaceutical company
Mary Cranston, <i>ex officio</i>	2012	N/A	Chair, LPCH Board of Directors
Christopher Dawes, <i>ex officio</i>	2000	N/A	President and CEO, LPCH
John Freidenrich	2001	2012	Founder of a venture capital firm
John Gunn	2011	2014	Senior executive of an investment firm
Joel Hyatt	2010	2012	Co-founder of a cable television channel
Ron Johnson	2008	2014	Senior executive for a large public corporation
Charles Koob	2011	2013	Retired attorney
John Levin, Vice Chair	2009	2014	Attorney
Ted Love, M.D.	2011	2013	Senior executive of a pharmaceutical company
John Morgridge	2008	2013	Chairman Emeritus of the board of a large publicly traded corporation
Woodrow A. Myers, M.D.	1996	2014	Health care consultant
Philip Pizzo, M.D., <i>ex officio</i>	2001	N/A	Dean, Stanford University School of Medicine
Christopher Redlich	2009	2012	Former Chairman and Owner of a contract stevedore and terminal operating company
Norman Rizk, M.D., <i>ex officio</i>	2001	N/A	Senior Associate Dean for Clinical Affairs, Stanford University School of Medicine
Amir Dan Rubin, <i>ex officio</i>	2011	N/A	President and CEO, the Corporation
John Scully	1999	2014	Founder and managing director of a private investment company
Ann Weinacker M.D., <i>ex officio</i>	2011	N/A	Chief of Staff
Scott Wood, M.D.	2011	2012	Community Physician
Steve Young	2003	2012	Founder of a nonprofit corporation
William Younger	2007	2012	Managing director of a venture capital firm

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

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, in consultation with the President of Stanford University, from among candidates nominated 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 deems appropriate. Biographical information on the current executive management group is set forth below.

Amir Dan Rubin, President and Chief Executive Officer. Amir Rubin was appointed President and Chief Executive Officer of the Corporation effective January, 2011. Prior to his appointment as President and Chief Executive Officer of the Corporation, Mr. Rubin served as the Chief Operating Officer at the 832-bed UCLA Health System in Los Angeles, California from October 2005 until January 2011. In that role, Mr. Rubin was responsible for the operations of the Ronald Reagan UCLA Medical Center, Mattel Children's Hospital, Resnick Neuropsychiatric Hospital, Santa Monica-UCLA Medical Center and Orthopedic Hospital and outpatient centers located in the west side of Los Angeles. Before joining UCLA Health System, Mr. Rubin was Chief Operating Officer of Stony Brook University Hospital, a 504-bed, comprehensive academic medical center on Long Island, New York. Before joining Stony Brook, Mr. Rubin served as Assistant Vice President of Operations for Memorial Hermann Hospital in Houston, Texas, an 818-bed, level-1 trauma center, which serves as the primary teaching hospital for University of Texas-Houston Medical School. He holds a M.H.S.A. in Health Care Administration and a M.B.A. from the University of Michigan and a B.A. in Economics with a minor in Business Administration from the University of California, Berkeley.

Margaret Vosburgh, Chief Operating Officer. Margaret Vosburgh became the Chief Operating Officer of the Corporation effective February 2012. Prior to joining the Corporation, Ms. Vosburgh served as the Chief Operating Officer and Executive Vice President at Tufts Medical Center. Previously, Ms. Vosburgh was Deputy Executive Director and chief operating officer for Long Island Jewish Hospital, part of the Northshore-LIJ Health System, the nation's third largest not-for-profit secular health care system. Ms. Vosburgh has also served as Executive Director for the Swedish Health System in Seattle, Washington and as Vice President of Center Operations at Albany Medical Center in Albany, Nevada. Ms. Vosburgh has an M.B.A. from the University of Southern California and was a Wharton Fellow at the University of Pennsylvania's Wharton School. In addition, she has both a bachelor's and master's degree in Nursing and worked as a Clinical Nurse Specialist in cardiovascular nursing.

Daniel J. Morissette, Chief Financial Officer. Daniel Morissette became the Chief Financial Officer of the Corporation in August 2007. Prior to joining the Corporation, Mr. Morissette served for four years as Senior Vice President, Finance and Strategy at the University of Toledo Medical Center and the University of Toledo, upon the merger of the health system with the University. For the previous 11 years, Mr. Morissette served in various senior management roles, including Senior Vice President and Chief Financial Officer, for the Herman M. Finch University of Health Sciences/The Chicago Medical School. Mr. Morissette is a Certified Public Accountant and holds a B.S. in Commerce, Concentration in Accountancy, from DePaul University, and an M.B.A. in Finance and Policy Studies from the University of Chicago, Graduate School of Business.

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

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

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

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, Ms. Vargas worked at HealthNet of California, most recently as its Healthcare Delivery Officer. Ms. Vargas was formerly the Group Vice President for MedPartners Northern California Region and Vice President and General Manager for Cigna Northern California. Ms. Vargas has a B.A. in Human Biology from Stanford University and a M.B.A. from the University of California-Los Angeles.

SERVICES, FACILITIES AND OPERATIONS

The Corporation operates the Hospital and Clinics both on the campus of Stanford University and in nearby communities. In 2011, U.S. News and World Report ranked the Hospital and Clinics as one of the nation’s top twenty medical centers in cancer treatment, orthopedics, heart and heart surgery and other specialties.

Principal Patient Services

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

Since 2001, the Corporation has concentrated its planning, development and marketing on five Strategic Clinical Services (the “Strategic Clinical Services”): Cardiac Care, Cancer Treatment, Solid Organ Transplantation (Abdominal), Orthopedics and Neurosciences. Historically, these services have been strengths of both the Hospital and Clinics and the School of Medicine. Such services are intensively focused on research and innovation, both strengths of the Corporation in management’s view, and many procedures in these services lines are eligible for higher than average payments from third-party payors. Management planning, development and marketing efforts are directed toward establishing the Hospital and Clinics as a leading center in the United States in each of these Strategic Clinical Services. Brief descriptions of the five Strategic Clinical Services follow. For additional information on utilization of the Strategic Clinical Services for the three years ended August 31, 2011 and the six months ended February 29, 2011 and February 28, 2010, see “Utilization” herein.

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

and heart failure and to prolong the quality of heart muscle function, have also been developed as a part of this Strategic Clinical Service.

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

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

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

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

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

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

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

The Project, SHC's Long-Range Master Plan and Additional Capital Needs

The Project. The proceeds of the Bonds will be used, along with the proceeds of the 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series D Bonds (hereinafter defined), if issued, to fund a portion of the costs of the most substantial renovation of the facilities of SHC (the "Project") since the Hospital's major components were constructed in 1959. The Project, which will create the "New Stanford Hospital," is a core element of a multi-year master plan for the facilities of SHC, the School of Medicine and LPCH. The goal of the New Stanford Hospital, endorsed by SHC's Board and embodied in the facilities design, is to create a place of healing that supports patient care, practitioner and staff productivity and environmental sustainability.

The New Stanford Hospital is intended to create physical connections that foster inter-connectivity among the facility components, both expressing and enabling the translational medicine activities of SHC, the School of Medicine and LPCH. Using modular units that can be converted to new uses over time, the New Stanford Hospital is designed to allow rapid adaptation of the facilities to technological innovations. Roof gardens, access to natural light and views of the Santa Cruz mountains and the Stanford University campus from patient rooms extend SHC's tradition of integrating campus facilities with the landscape to the interior surgical, procedural and patient rooms. The New Stanford Hospital has also been designed to support growth of the Strategic Clinical Services and other tertiary services and to meet the standards of the Seismic Safety Act. Construction of the Project began in 2012 and is scheduled to be completed in 2017, with transition to the New Stanford Hospital anticipated to occur through 2018. Upon completion of the Project, the Hospital, including both the New Stanford Hospital and the renovated portions of the existing Hospital, will house approximately 580 patient beds.

The Master Plan. The New Stanford Hospital is the first and primary phase of the Corporation's master plan for facilities replacement and renewal (the "Master Plan"). The Master Plan is anticipated to be completed in multiple phases under a thirty-year development agreement among the City of Palo Alto, the Corporation, LPCH, and Stanford University that governs the local entitlements. As part of the Master Plan, the Corporation will replace, expand and renovate major portions of its existing facilities with construction of approximately 1.1 million square feet of inpatient facilities, including new surgical operating, diagnostic and treatment suites, a new emergency department and associated nursing and support space, and approximately 429,000 square feet of clinics, medical offices, and administrative offices. These facilities will replace approximately 700,000 square feet of existing facilities, resulting in a net increase of approximately 824,000 square feet of facilities. Construction activities have been planned to permit inpatient and outpatient services to continue during each phase of the Master Plan.

Sources of Funding. Management currently estimates total expenditures on capital improvements related to the Master Plan to be approximately \$3.0 billion over the next seven fiscal years, subject to annual budget review and approvals. Management currently estimates the cost of the Project to

be approximately \$2 billion, of which approximately \$150 million has already been spent. Funding sources for the Project include cash flows from operations, investment income, debt (currently estimated at approximately \$600 million, which includes proceeds of the Bonds, the 2012 Series A Bonds, the 2012 Series B Bonds and, if issued, the 2012 Series D Bonds) and philanthropy. Capital plan expenditures remain subject to the review and approval of the Board in light of the priorities, debt capacity and resources of the Corporation, and accordingly are subject to material change.

Seismic Safety Act Compliance and Status of Approvals. California’s Hospital Seismic Safety Act (the “Seismic Safety Act”) requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as non-compliant must be retrofitted, replaced or removed from acute care service by applicable deadlines in 2013 or 2030. The California Office of Statewide Health Planning and Development (“OSHPD”) has classified a substantial portion of the Hospital as compliant with seismic safety structural standards until 2030 and beyond. Patient care activities are located in facilities that are structurally compliant until 2030. However, these facilities have utility and other connections to facilities that are only compliant until 2013, or 2015 under prescribed circumstances. Amendments of the Seismic Safety Act, through SB 608, permit OSHPD to extend the structural compliance deadline for eligible hospitals from 2013 until January 1, 2016 due to local planning delays. In addition, such amendments authorize OSHPD to grant two additional one-year extensions, until January 1, 2018, to facilities that meet certain criteria. Separately, SB 90 allows an extension to January 1, 2020 to hospitals that meet certain eligibility requirements. Management expects the Corporation to be eligible for such extensions under both SB 90 and SB 608.

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with the Corporation, LPCH and Stanford University. In July 2011, the Palo Alto City Council provided final approval for the Master Plan at the second reading of the Development Agreement.

The School of Medicine

The 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 2012, U.S. News and World Report ranked the School of Medicine fourth 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 Hospital and Clinics and LPCH, and a Medical Scientist Program in which students earn both an M.D. and Ph.D.

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

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

Collaborations between the School of Medicine and the Corporation include:

- A Council of Clinical Chairs, co-chaired by the Senior Associate Dean for Clinical Affairs of the School of Medicine and the Corporation’s Chief Executive Officer. The

Council includes the chairs of the 17 departments of the School of Medicine as well as key officers of the Corporation.

- Joint planning involving the School of Medicine, other components of Stanford University and the Corporation to integrate the clinical services, business needs and information technology priorities.
- Coordination of development and philanthropy for the mutual benefit of the two institutions.
- Collaboration in protecting the privacy and security of patient health information.
- Clinical Services and outreach clinics with select community hospitals.
- Collaboration regarding health care reform and medical center strategy.

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 patients.

Operational Relationships Among the Corporation, Stanford University, LPCH and UHA

Purchased Services from the School of Medicine. Services provided at the Hospitals and Clinics by the School of Medicine include emergency room physician coverage, medical direction and professional clinical services, which are delivered pursuant to a Professional Services Agreement (“PSA”) between the Corporation and the School of Medicine. The expenses for these services are included in purchased services in the consolidated statements of operations and changes in net assets and were approximately \$292 million for the year ended August 31, 2011.

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

Other Transactions with Stanford University. Services provided to the Corporation by Stanford University include telecommunications, transportation, utilities, blood products, and certain administrative services, which include legal and internal audit. The Corporation’s cost of such services for the fiscal year ended August 31, 2011 was approximately \$87 million and is reflected in various expense categories in the consolidated statement of operations and changes in net assets.

The Corporation also received payment for services provided to Stanford University, including primarily building maintenance, housekeeping, and security. Costs incurred by the Corporation in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from Stanford University totaled \$33 million for

the fiscal year ended August 31, 2011, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

The Corporation received certain grant monies for clinical trials from Stanford University that totaled \$7.3 million for the year ended August 31, 2011 and are reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries. The Corporation transferred \$6.4 million to Stanford University for academic grants. The Corporation's transfers to Stanford University are reflected in the consolidated statements of operations and changes in net assets as transfers to Stanford University.

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, 2011, the total cost of shared services departments was approximately \$202.5 million, of which approximately \$18.0 million was reimbursed by LPCH. The reimbursement from LPCH is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

The Corporation also provides various services to LPCH, including operating room facilities and services, cardiac catheterization, interventional radiology, radiation oncology and laboratory services. The Corporation charges LPCH for the services and products purchased by LPCH based on either (i) a percentage of charges intended to approximate actual cost or (ii) on the basis of actual cost per procedure. Reimbursement from LPCH for purchased services provided by the Corporation totaled approximately \$42.3 million for the year ended August 31, 2011 and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other services provided by the Corporation to LPCH include services provided by interns and residents, billings and collections, building maintenance and utilities. Reimbursement of these services totaled \$23 million for the year ended August 31, 2011, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Transactions with UHA. SHC has agreed to sponsor UHA's operating divisions comprised of multi-specialty clinics operated by UHA in ten locations in San Mateo, Santa Clara and Alameda counties, and in connection with such sponsorship SHC has agreed to fund UHA's general overhead costs and to supplement the operating division's revenues if necessary to fund its operating and capital costs. In fiscal year 2011, SHC provided approximately \$4.9 million in funding for operations and capital, which is reflected as an equity transfer on the consolidated statements of operations and changes in net assets. Management of SHC estimates that transfers of such sponsorship amounts will not be material to the financial condition of SHC. (See "SERVICES, FACILITIES AND OPERATIONS—Market Strategy" below.)

Additional Information Concerning Related Party Transactions. For additional information concerning related party transactions, see Note 13 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Bed Complement

As of August 31, 2011, 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, 2011

<u>Service</u>	<u>Number of Beds</u>	
	<u>Licensed</u>	<u>Operational</u>
Medical/Surgical	491	370
Intensive Care	67	58
Rehabilitation	17	0 ⁽¹⁾
Coronary Care	8	8
Psychiatric	30	30
Totals	<u>613</u>	<u>466</u>

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

Source: Corporation Records.

Description of Admitting Medical Staff

As of August 31, 2011, the admitting medical staff of the Corporation was comprised of 1,826 physicians. Each member of the admitting medical staff is assigned to one of the medical staff departments and is granted hospital privileges to treat patients in accordance with his/her experience, training and professional capabilities. Approximately 68% of the total medical staff (1,250 members of the admitting staff) are full-time members of the faculty of the School of Medicine and approximately 32% of the total medical staff (576 members of the admitting medical staff) are community physicians. Approximately 81% of the Corporation's admitting medical staff members are board certified in their respective specialties. The following table shows members of the admitting medical staff by specialty, average age and board certification.

TABLE 2
Medical Staff Composition
as of August 31, 2011

Specialty	Number of Staff	Average Age	Number of Staff Who are Board Certified	Percentage of Staff Who are Board Certified
Anesthesia	187	46	143	76.5%
Cardiothoracic Surgery	31	50	22	71.0%
Dermatology	43	50	38	88.4%
Medicine	492	48	434	88.2%
Neurology	60	49	52	86.7%
Neurosurgery	35	45	19	54.3%
Obstetrics & Gynecology	109	47	86	78.9%
Ophthalmology	66	51	58	87.9%
Orthopedic Surgery	71	48	54	76.1%
Otolaryngology/Head&Neck	58	47	44	75.9%
Pathology	55	49	47	85.5%
Pediatrics	79	49	66	83.5%
Psychiatry	187	53	122	65.2%
Radiation Oncology	18	47	14	77.8%
Radiology	138	47	112	81.2%
Surgery	175	47	148	84.6%
Urology	22	49	20	90.9%
Totals	1,826		1,479	
Average Age		48		
Percentage				81.0 %

Source: Corporation Records.

The following table shows the number of admitting medical staff physicians in each indicated age group, the percentage of the total admitting medical staff for each age group and the percentage of admissions for each age group for the fiscal year ended August 31, 2011.

TABLE 3

**Admissions by Physician Age Group
For the Fiscal Year Ended August 31, 2011**

Age Group	Number of Physicians in Age Group	Percent of Physicians in Age Group	Percent of Total Admissions
< 25	0	0%	0.0%
25-34	176	10	6.5
35-44	625	34	44.2
45-54	468	26	28.5
55-64	361	20	17.0
65+	196	11	3.9
Totals	1,826	100%	100.0%

Source: Corporation Records.

The following table shows the top ten admitters based on patient admissions and listed by specialty for the fiscal year ended August 31, 2011.

TABLE 4

Top Ten Admitting Physicians Based on Patient Volume For the Fiscal Year Ended August 31, 2011

<u>Rank</u>	<u>Physician Specialty</u>	<u>Admissions</u>	<u>Age</u>
1.	Orthopedic Surgery	384	60
2.	Neurosurgery	375	59
3.	Orthopedic Surgery	333	40
4.	General Surgery	320	46
5.	General Internal Medicine	295	43
6.	Orthopedic Surgery	287	59
7.	General Surgery	265	51
8.	General Surgery	247	64
9.	Neurosurgery	244	43
10.	General Surgery	243	39
	Total Admissions	<u>2,993</u>	
	Average Age		<u>50</u>

Source: Corporation Records.

Service Area

The Corporation has classified its service area into the four geographical markets identified below. San Mateo and Santa Clara counties comprise the Local Market for the Corporation. This two-county area has been historically the predominant source of inpatient volume for the Hospital and Clinics, accounting for about 55% of inpatient volume. In the Regional, California and National/International Markets, the Corporation provides primarily tertiary and quaternary care. The composition of these markets is described below:

Local Market—San Mateo and Santa Clara counties.

Regional Markets

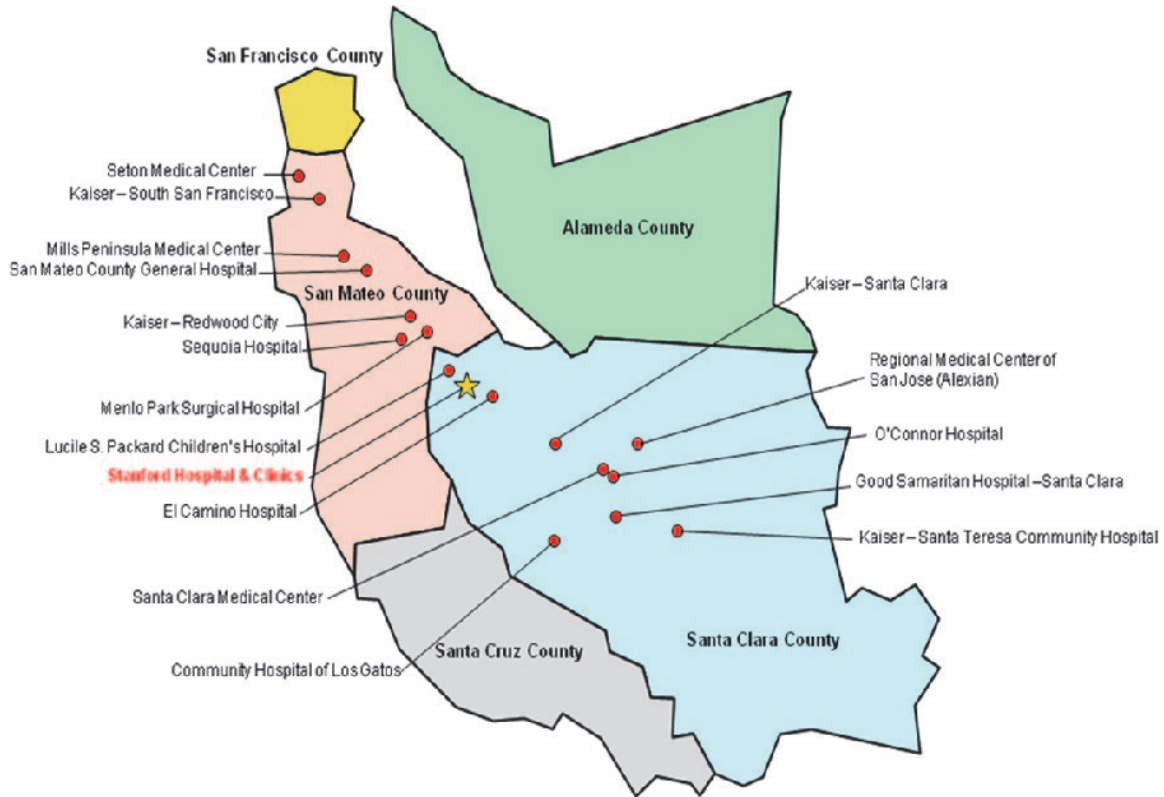
- East Bay—Alameda, Contra Costa, and Solano counties
- Central Coast—Monterey, San Benito, San Luis Obispo, Santa Cruz counties
- Central Valley—Madera, Fresno, Kings, Merced, Sacramento, San Joaquin, Stanislaus and Tulare counties
- North Bay—Sonoma, Marin, Napa and San Francisco counties

California Market—Counties north and south of the Regional Markets

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

Service Area Map

Below is a map of the general service area of the Corporation that includes the Local Market area and Regional Market area.



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

TABLE 5

**Clinics Volume and Revenues and
Certain Demographic Information**

Local and Regional Markets	Calendar Year 2011⁽¹⁾		Actual Population 2011	Projected Population 2016	Projected Percent Population Change	Median Age 2011	Average Household Income 2011
	Percent of Outpatient Volume	Percent of Charges					
Local Market	64.1%	52.6%	2,537,878	2,650,080	4.4%	38	\$117,626
Regional Market:							
East Bay	11.1	11.0	2,970,721	3,104,998	4.5	38	91,784
Central Coast	6.1	6.9	1,002,885	1,039,387	3.6	38	80,009
Central Valley	7.0	9.0	4,535,730	4,908,662	8.2	33	58,560
North Bay	3.7	3.7	1,686,850	1,752,129	3.9	43	98,857
Other Markets	8.0	16.8	—	—	—	—	—
Totals	<u>100.0%</u>	<u>100.0%</u>					

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

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

The following table provides the discharge data for calendar years 2008, 2009 and 2010 (the most recent years for which such data are available) for the Corporation and the hospitals in and near the Local Market that management has identified as competitors of the Corporation. Table 6 also provides case mix index data for calendar year 2010 (the most recent year for which such data are available). The case mix index (the “Case Mix Index”) is an indicator of the complexity and intensity of the services provided.

TABLE 6

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

	Calendar Year 2008		Calendar Year 2009		Calendar Year 2010		CY 2010 Case Mix Index
	Discharges	% of total	Discharges	% of total	Discharges	% of total	
Stanford Hospital	12,663	7.2%	13,178	7.7%	13,378	8.0%	1.73
Santa Clara Valley Medical Center	19,965	11.3	18,546	10.8	18,446	11.0	1.16
El Camino Hospital ⁽¹⁾	14,938	8.5	15,447	9.0	16,839	10.0	1.25
Kaiser Foundation Hospital - Santa Clara	16,293	9.2	16,295	9.5	16,273	9.7	1.39
Good Samaritan Hospital - San Jose	13,922	7.9	14,624	8.5	13,489	8.0	1.38
Mills-Peninsula Medical Center	13,691	7.7	12,854	7.5	11,932	7.1	1.32
O’Connor Hospital	12,729	7.2	11,944	7.0	11,172	6.7	1.30
Kaiser - Santa Teresa Community Hospital	10,507	5.9	10,299	6.0	10,367	6.2	1.26
Regional Medical Center of San Jose	9,131	5.2	9,204	5.4	8,708	5.2	1.58
Seton Medical Center	7,218	4.1	7,112	4.1	6,233	3.7	1.49
Sequoia Hospital	6,492	3.7	6,333	3.7	6,182	3.7	1.29
Kaiser – Redwood City	5,409	3.1	5,335	3.1	5,670	3.4	1.36
Kaiser – South San Francisco	4,476	2.5	4,264	2.5	4,254	2.5	1.47
Community Hospital of Los Gatos ⁽¹⁾	3,244	1.8	-	-	-	-	-
San Mateo County General Hospital	3,770	2.1	3,703	2.1	3,643	2.2	1.20
California Pacific Medical Center ⁽²⁾	2,283	1.3	2,244	1.3	2,134	1.3	1.35
University of California San Francisco Medical Center ⁽²⁾	2,042	1.2	2,033	1.2	1,948	1.2	2.01
All Other Hospitals ⁽³⁾	17,907	12.0	18,071	10.5	17,193	10.2	
Total discharges	176,680		171,486		167,861		

⁽¹⁾ Community Hospital of Los Gatos was acquired by El Camino Hospital in 2009. The discharges and Case Mix Index data are reported under El Camino Hospital for calendar year 2010.

⁽²⁾ Although not actually within the Local Market boundaries, Corporation management identifies California Pacific Medical Center and the University of California San Francisco Medical Center as competitors comparable to other competitors within the local market.

⁽³⁾ The category “All Other Hospitals” includes all hospitals utilized by residents of San Mateo and Santa Clara counties. Data include all 18+ Local Market and selected Regional Market patients; Case Mix Indices (CMI) are based on Thompson Reuters 2010 MS-DRG weights. CMI based on Local Market and selected Regional Market adult inpatient discharges only.

Source: Thomson Reuters The Market Planner Plus.

As indicated in the Case Mix Index data in Table 6, the Corporation has a substantially higher Case Mix Index than all but one of the identified competitor hospitals. Competitor hospitals in the Local Market primarily focus on lower complexity and intensity cases. While also providing a significant amount of care at this level, the Corporation primarily provides care to patients whose cases are classified as high acuity and complex cases in and near the Local Market, many of which are transferred to the Hospital and Clinics from other local hospitals. In large part, the most acute and difficult cases come to the Hospital and Clinics because the Hospital and Clinics, together with the UCSF, are the only hospitals in the San Francisco Bay Area to offer many of the treatments and procedures necessary for these patients. Management's strategic decision to concentrate on the five Strategic Clinical Services reflects its opinion that higher acuity services will produce higher operating margins than lower acuity services.

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

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

The Palo Alto Medical Foundation, an affiliate of Sutter Health, plans to construct a medical campus in San Carlos, 9.8 miles from the Hospital. The announced construction plans include medical offices, laboratory and radiology services, emergency care and a 97-bed, full-service, acute care hospital, to be built in two phases. The first phase will be an outpatient medical center scheduled to open in 2013. The second phase involves addition of an acute care hospital, to be built at a later date.

Market Strategy

Overall, the Corporation's strategic plan calls for near-term growth in the Strategic Clinical Services and other services in which the Corporation has demonstrated distinction, focusing on specific services in specific markets determined on the basis of services already available in the relevant market 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 in these services. See "The School of Medicine" herein. The growth strategy also provides for more rapid translation of faculty research into clinical care. Leverage strategies are expected to be tailored to the opportunities in each market and are expected to include selective partnering with other institutions, management of subspecialty services for other institutions, development of outreach infrastructures that include both on-site and web-based delivery of care, and expanded contracting with payers for selected clinical services.

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

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

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

Current actions being taken to implement these strategies include:

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

Community Physician Network

In January 2011, SHC and Stanford University, acting on behalf of its School of Medicine, formed UHA to operate clinics staffed by a network of community-based physicians. These community-based clinics are staffed by community physicians, complementing the faculty practice clinics operated by SHC and staffed by members of the faculty of the School of Medicine. UHA's community-based clinic network began in 2011 with two clinics in Menlo Park, California, and as of April 1, 2012 consists of 10 clinics located in San Mateo, Santa Clara and Alameda counties. Clinic services are provided through long-term professional services agreements between UHA and community-based physicians, who are affiliated with UHA through operating divisions associated with the physicians' medical groups. SHC provides financial support for the operating divisions of UHA under sponsorship agreements (see "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA" above). As new operating divisions are added, SHC may enter into additional sponsorship arrangements with UHA in support of expanding the network of community-based clinics operated by UHA. In a related effort, SHC is in discussions with other community-based physicians regarding extending SHC's electronic medical record system to community physician practices.

Utilization

A summary of historical utilization data for the Corporation for the three fiscal years ended August 31, 2009, 2010 and 2011 and for the six-month periods ended February 28, 2011 and February 29, 2012 is presented in the following table.

TABLE 7

Historical Utilization

	Fiscal Years Ended August 31,			For the Six Months ended	
	2009	2010	2011	February 28, 2011	February 29, 2012
Discharges					
Acute	22,909	23,265	24,127	11,822	12,037
Behavioral Health	900	855	843	405	429
Total	<u>23,809</u>	<u>24,120</u>	<u>24,970</u>	<u>12,227</u>	<u>12,466</u>
Patient Days					
Acute	126,501	125,556	128,934	63,428	65,989
Behavioral Health	8,590	8,838	8,799	4,554	4,282
Subtotal	<u>135,091</u>	<u>134,394</u>	<u>137,733</u>	<u>67,982</u>	<u>70,271</u>
Short Stay Outpatient	6,126	6,569	6,677	3,314	3,610
Total	<u>141,217</u>	<u>140,963</u>	<u>144,410</u>	<u>71,296</u>	<u>73,881</u>
Average Daily Census					
Acute	346.6	344.0	353.2	350.4	362.6
Behavioral Health	23.5	24.2	24.1	25.2	23.5
Total	<u>370.1</u>	<u>368.2</u>	<u>377.4</u>	<u>375.6</u>	<u>386.1</u>
Average Length of Stay					
Acute	5.5	5.4	5.3	5.4	5.5
Behavioral Health	9.5	10.3	10.4	11.2	10.0
Average	<u>5.7</u>	<u>5.6</u>	<u>5.5</u>	<u>5.6</u>	<u>5.6</u>
Case Mix Index	1.98	1.97	1.98	1.97	2.02
Emergency Room Visits	48,840	50,561	51,221	25,267	26,556
Short Stay Outpatient Procedures	24,192	26,211	28,699	13,630	13,000
Other Outpatient Visits ⁽¹⁾	<u>263,733</u>	<u>346,830</u>	<u>398,929</u>	<u>189,137</u>	<u>202,575</u>
Surgeries					
Inpatient	11,514	11,996	12,093	5,966	6,055
Outpatient ⁽²⁾	11,830	13,294	14,593	6,999	7,258
Totals	<u>23,344</u>	<u>25,290</u>	<u>26,686</u>	<u>12,965</u>	<u>13,313</u>

⁽¹⁾ For fiscal year 2009, data shown reflect billing events that may include multiple visits. Beginning in fiscal year 2010, new billing software was implemented, and the statistics began capturing actual number of visits. As a result, data shown for the fiscal year ended August 31, 2009 are not comparable to data shown for the later periods.

⁽²⁾ Psychiatry and LPCH cases have been excluded.

Source: Corporation Records.

SUMMARY OF FINANCIAL INFORMATION

The following consolidated statements of operations and changes in net assets for the fiscal years ended August 31, 2009, 2010 and 2011 have been derived from the Consolidated Financial Statements of Stanford Hospital and Clinics and Subsidiaries, except as described below relating to the presentation of the provision for doubtful accounts which has been reclassified to reflect new accounting guidance. The consolidated statements of operations and changes in net assets for the fiscal years ended August 31, 2010 and 2011 are included in Appendix B to this Official Statement. (For additional information concerning the Subsidiaries included in the consolidated financial statements, see Note 1 of such consolidated financial statements). The consolidated financial statements which are included in Appendix B have been audited by PricewaterhouseCoopers LLP, independent accountants. The summary of the three fiscal years ended August 31, 2011 should be read in conjunction with the audited consolidated financial statements and related notes thereto for the fiscal years ended August 31, 2010 and 2011, included in Appendix B to this Official Statement.

The information for the six-month periods ended February 28, 2011 and February 29, 2012 has been derived by management from financial statements of the Corporation for such periods. Such consolidated financial statements are unaudited but, in the opinion of the management of the Corporation, fairly reflect the results of operations for such interim periods and are presented on a basis consistent with the audited consolidated financial statements of the Corporation contained in Appendix B, with the exception of the implementation of new accounting guidance for the presentation of the provision for doubtful accounts (described below).

In December 2007, the Financial Accounting Standards Board (“FASB”) issued new guidance for the presentation of non-controlling interests in consolidated financial statements. This new accounting guidance requires that ownership interests in subsidiaries held by parties other than the parent entity be clearly identified, labeled and presented in the net asset section of the balance sheet, separate from the parent entity’s net assets. It also requires that the amount of consolidated net income attributable to the parent entity and to the non-controlling interest be clearly identified and presented on the face of the statement of operations. The Corporation implemented the new accounting guidance on September 1, 2010, and the information for the fiscal year ended August 31, 2011 and the six-month periods ended February 28, 2011 and February 29, 2012 are presented in accordance with such guidance.

In July 2011, the FASB issued new guidance surrounding the presentation of the provision for doubtful accounts for certain health care entities. The new accounting guidance requires these entities to change the presentation of their statement of operations by reclassifying the provision for doubtful accounts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). This new guidance affects entities that recognize significant amounts of patient service revenue at the time services are rendered even though the patient’s ability to pay is not assessed. The Corporation implemented the new accounting guidance on February 1, 2012, and the information for all periods presented in the following table has been reclassified to reflect such guidance.

The results of three of SHC’s subsidiaries, SEROC, SUMIT and Menlo Health Alliance, LLC (“MHA”), are consolidated with those of the Corporation for all periods, except for the six-month period ended February 29, 2012. As of January 1, 2011, with the conversion of MHA to UHA, MHA ceased to be consolidated in the Corporation’s financial statements, so is not included in the information for the six-month period ended February 29, 2012. The financial results of PET-CT are reported using the equity method of accounting. In management’s view, the assets, liabilities and results of operations and changes in net assets of the subsidiaries are not material to the Corporation. As of August 31, 2011, SEROC, SUMIT and MHA represented in aggregate less than 3% of the Corporation’s consolidated assets, total

revenues and income from operations. They are not Members of the Obligated Group or otherwise obligated with respect to the Bonds.

TABLE 8
Stanford Hospital and Clinics and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Fiscal years ended August 31 ⁽²⁾			For the six months ended ⁽²⁾	
	2009	2010	2011 ⁽¹⁾	February 28, 2011 ⁽¹⁾	February 29, 2012 ⁽¹⁾
Operating Revenues					
Net patient service revenue	\$ 1,764,816	\$ 1,891,342	\$ 2,123,716	\$ 1,052,768	\$ 1,135,814
Provision for doubtful accounts, net	53,859	68,426	82,247	46,608	57,441
Net patient service revenue less provision for doubtful accounts	1,710,957	1,822,916	2,041,469	1,006,160	1,078,373
Other revenue	57,666	71,193	61,885	30,285	38,324
Net assets released from restrictions used for operations	5,195	4,771	5,503	2,659	2,536
Total operating revenues	1,773,818	1,898,880	2,108,857	1,039,104	1,119,233
Operating Expenses					
Salaries and benefits	787,035	839,916	890,497	431,051	463,399
Professional services	22,842	22,118	25,329	11,336	14,901
Supplies	265,139	271,026	294,543	140,859	151,792
Purchased services	434,257	453,532	490,096	239,948	243,829
Depreciation and amortization	73,876	96,198	96,918	46,335	44,359
Interest	37,921	39,749	45,821	22,365	24,390
Other	139,385	153,058	171,978	106,033	86,398
Expense recoveries from related parties	(81,317)	(76,787)	(78,902)	(38,625)	(41,326)
Total operating expenses	1,679,138	1,798,810	1,936,280	959,302	987,742
Income from operations					
Interest and investment income	94,680	100,070	172,577	79,802	131,491
(Decrease) increase in value of University managed pools	3,814	4,240	7,295	2,474	2,509
Interest rate swaps mark-to-market adjustments	(146,481)	68,138	116,058	72,363	(3,470)
Loss on extinguishment of debt	(48,338)	(79,054)	672	78,834	(37,869)
	-	(12,994)	-	-	-
(Deficiency) excess of revenues over expenses	(96,325)	80,400	296,602	233,473	92,661
Other changes in unrestricted net assets:					
Transfer to Stanford University, net	(8,049)	(7,956)	(6,968)	(3,523)	(5,610)
Transfer to University Healthcare Alliance	-	-	(13,224)	(9,724)	(19,225)
Transfer from Lucile Packard Children's Hospital	288	-	5,859	1,293	9
Change in net unrealized gains on investments	237	680	(186)	(961)	(304)
Net assets released from restrictions used for purchase of property and equipment	460	11,872	3,590	2,578	296
Change in pension and postretirement liability	(75,101)	(30,467)	12,902	-	-
Noncontrolling capital contribution, net	-	-	3,425	3,425	-
(Decrease) increase in unrestricted net assets	(178,490)	54,529	302,000	226,561	67,827
Changes in temporarily restricted net assets:					
Transfer from Stanford University	15,167	2,789	352	132	164
Transfer (to) from Lucile Packard Children's Hospital	-	(10)	3	-	-
Contributions and other	5,606	34,729	128,475	21,004	118,692
Transfer to permanently restricted net assets	-	-	-	-	(2,000)
Investment income	98	140	364	31	2
(Losses) gains on University managed pools	(1,415)	2,106	2,422	1,108	(27)
Net assets released from restrictions for:					
Operations	(5,195)	(4,771)	(5,503)	(2,659)	(2,536)
Purchase of property and equipment	(460)	(11,872)	(3,590)	(2,578)	(296)
Increase in temporarily restricted net assets	13,801	23,111	122,523	17,038	113,999
Changes in permanently restricted net assets:					
Transfer from temporarily restricted net assets	-	-	-	-	2,000
Increase in permanently restricted net assets	-	-	-	-	2,000
(Decrease) increase in net assets	(164,689)	77,640	424,523	243,599	183,826
Net assets, beginning of year, as previously reported	971,695	807,006	884,646	884,646	1,311,485
Cumulative effect of change in accounting principle	-	-	2,316	2,316	-
Net assets, beginning of year, as adjusted	971,695	807,006	886,962	886,962	1,311,485
Net assets, end of year	\$ 807,006	\$ 884,646	\$ 1,311,485	\$ 1,130,561	\$ 1,495,311

(1) The fiscal year ended August 31, 2011 and the six-month periods ended February 28, 2011 and February 29, 2012 reflect new accounting guidance regarding noncontrolling interests.

(2) All periods reflect the new accounting guidance regarding presentation of provision for doubtful accounts.

Management’s Discussion and Analysis of Recent Financial Performance

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

Accounting Policies; Use of Estimates

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

Management evaluates its estimates on an ongoing basis and makes changes to the estimates as 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, see the notes to the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Recent Initiatives

Recent initiatives include: (i) the formation of UHA (see “SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA” and “—Market Strategy” herein); (ii) the establishment of the Corporate Partners Program, which is a collaboration between the Corporation and leading Silicon Valley technology companies, that management anticipates will provide philanthropic support for the Corporation and create a global model for patient-centered, technologically advanced health care; and (iii) the establishment of the Byers Eye Institute at Stanford (the “Eye Institute”), a patient-centered facility that will deliver integrated vision care services. The Corporation is also participating in the Medicare and Medicaid Electronic Health Records Incentive Programs (the “EHR Incentive Program”), which provide payments to eligible professionals, eligible hospitals and critical access hospitals as they adopt, implement, upgrade or demonstrate meaningful use of certified Electronic Health Records (“EHR”) technology. The Corporation began receiving payments under the Medicare EHR Incentive Program in fiscal year 2012. In addition, the Corporation continues to participate in the California Hospital Fee Program (“Hospital Fee Program”). Pursuant to the Hospital Fee Program, the State of California uses funds collected from certain California hospitals to increase Medi-Cal funding for all non-specialty California hospitals and support children’s health insurance programs. For more information about the Hospital Fee Program, see “BONDHOLDERS’ RISKS—Patient Service Revenue—Hospital Provider Fee” in the forepart to this Official Statement, and for the impact of the Hospital Fee Program on the Corporation, see “Hospital Fee Program” herein.

Three Year Historical Performance Overview

For the three years ended August 31, 2011, the Corporation’s overall financial performance strengthened despite challenges, enhancing its ability to support investments in the facilities and systems required to remain at the forefront of medicine and to be the provider of choice for complex care in the communities it serves. Higher patient revenues and improved financial market conditions contributed to

the Corporation's strengthened financial position. Cumulative Operating Revenues for the three years ended August 31, 2011 were approximately \$5.8 billion, of which Net Patient Service Revenue accounted for 96% of this total. Cumulative Income from Operations before investment income for the three years ended August 31, 2011 was approximately \$367 million. Cumulative interest and investment income and change in the value of SHC's share of the Stanford University managed pools for the three years ended August 31, 2011 was approximately \$53 million, which resulted in a cumulative increase in Net Assets for the three years ended August 31, 2011 of approximately \$337 million. Cumulative capital expenditures for the three years ended August 31, 2011 were approximately \$454 million.

***Financial Performance Comparison for the Six-Month Periods
Ended February 28, 2011 and February 29, 2012***

Income generated from operations before depreciation and interest expense was \$200 million for the six-month period ended February 29, 2012, as compared to \$149 million for the six-month period ended February 28, 2011. The Corporation reported income from operations before investment income of \$131 million for the six-month period ended February 29, 2012, versus \$80 million for the six-month period ended February 28, 2011. Net patient revenue less provision for doubtful accounts included in income from operations increased by 7%, period over period, or \$72 million, while total operating expenses increased by 3%, or \$28 million, period over period. A portion of the revenues and expenses is related to the EHR Incentive Program and the Hospital Fee Program, which are temporary government programs. Excluding revenues and expenses related to these two programs, net patient revenue less provision for doubtful accounts increased 9%, or \$85 million, while total operating expenses increased by 5%, or \$48 million, period over period. Net patient revenue increased mainly due to higher volume. Volume increased for the period ended February 29, 2012 with patient days of 73,881 versus 71,296 for the period ended February 28, 2011. Outpatient volume also continued to increase due to new and growing outpatient facilities, such as the Eye Institute and the Outpatient Center. However, the related increase in operating expenses remained consistent with prior years due to effective cost containment measures implemented by the Corporation.

Interest and investment income and the decrease in value of SHC's share of the Stanford University managed pools accounted for a loss of \$1 million for the period ended February 29, 2012 versus a gain of \$75 million for the period ended February 28, 2011. The fair value of the interest rate swaps decreased by \$38 million and increased by \$79 million for the periods ended February 29, 2012 and February 28, 2011, respectively. As a result, the Corporation's excess of revenues over expenses for the six months ended February 29, 2012 were \$93 million, a decrease of approximately \$141 million over the comparable period in the preceding year. In addition, the Corporation's net assets increased by \$184 million and \$244 million for the periods ended February 29, 2012 and February 28, 2011, respectively.

Financial Performance in Fiscal Year 2011 Compared to Fiscal Year 2010

The Corporation's net assets increased \$427 million, from \$885 million as of August 31, 2010, to \$1,312 million as of August 31, 2011. In fiscal year 2011, the Corporation generated a \$297 million excess of revenues over expenses compared to an \$80 million excess of revenues over expenses in fiscal year 2010. Interest and investment income and change in value of SHC's share of the Stanford University managed pools increased by \$51 million in fiscal year 2011, resulting in a gain of \$123 million due to positive returns on these investments.

Net patient service revenue less provision for doubtful accounts increased by 12%, from \$1.8 billion in fiscal year 2010, to \$2.0 billion in fiscal year 2011. Inpatient revenues, which make up 54% of total revenue, grew by 18% on continuing increases in patient volume. Revenues from the Hospital Fee Program contributed to this increase as well. Excluding Hospital Fee Program revenue,

inpatient revenues grew by 14%. Outpatient revenues increased by 6%, accounting for 46% of total revenue. Operating expenses increased 8% in fiscal year 2011 to \$1.9 billion, from \$1.8 billion in fiscal year 2010. Salaries and benefits increased 6% to \$890 million in response to growth in patient volumes and to maintain SHC's position in the competitive market for health care professionals. All other operating expenses were up 9%, from \$959 million in fiscal year 2010, to \$1,046 million in fiscal year 2011 largely as a result of costs related to the increase in patient activity, Hospital Fee Program payments to the State of California, enhanced IT infrastructure, other SHC initiatives, and inflation increases.

Financial Performance in Fiscal Year 2010 Compared to Fiscal Year 2009

The Corporation's net assets increased \$78 million, from \$807 million as of August 31, 2009, to \$885 million as of August 31, 2010. In fiscal year 2010, the Corporation generated an \$80 million excess of revenues over expenses compared to a deficiency of revenues over expenses of \$96 million in fiscal year 2009. Interest and investment income and change in value of SHC's share of Stanford University managed pools increased by \$215 million in fiscal year 2010, resulting in a gain of \$72 million due to positive returns on these investments.

Net patient service revenue less provision for doubtful accounts increased by 7%, from \$1.7 billion in fiscal year 2009, to \$1.8 billion in fiscal year 2010. Inpatient revenues, which make up 51% of total revenue, grew by 2% on continuing increases in patient volume. Outpatient revenues increased by 11%, accounting for 49% of total revenue. Operating expenses increased 7% in fiscal year 2010, from \$1.7 billion in fiscal year 2009, to \$1.8 billion. Salaries and benefits increased 7%, from \$787 million in fiscal year 2009, to \$840 million in fiscal year 2010 in response to growth in patient volumes and a full year of operations for the Outpatient Center. All other operating expenses combined increased 7%, from \$892 million in fiscal year 2009, to \$959 million in fiscal year 2010 largely as a result of costs related to increased patient activity and enhanced IT infrastructure.

Financial Performance in Fiscal Year 2009 Compared to Fiscal Year 2008

Despite income from operations of \$95 million, the Corporation's net assets decreased \$165 million, from \$972 million as of August 31, 2008, to \$807 million as of August 31, 2009. In fiscal year 2009, the Corporation generated a \$96 million deficiency of revenues over expenses compared to an excess of revenues over expenses of \$76 million in fiscal year 2008. Interest and investment income and change in value of SHC's share of Stanford University managed pools decreased by \$174 million from the fiscal year ended August 31, 2008, resulting in a loss of \$143 million due to negative returns on these investments.

Net patient service revenue less provision for doubtful accounts increased by 11%, from \$1.5 billion in fiscal year 2008, to \$1.7 billion in fiscal year 2009. Inpatient revenues, which make up 53% of total revenue, grew by 9% on continuing increases in patient volume. Outpatient revenues increased by 13%, accounting for 47% of total revenue. Operating expenses increased 12% in fiscal year 2009, from \$1.5 billion in fiscal year 2008, to \$1.7 billion. Salaries and benefits increased 10% from \$715 million in fiscal year 2008 to \$787 million in fiscal year 2009 in response to growth in patient volumes, staffing of expanded clinical facilities and the competitive market for health care professionals. All other operating expenses combined increased 14%, from \$784 million in fiscal year 2008, to \$892 million in fiscal year 2009 largely as a result of costs related to the increase in patient activity and expanded clinical services.

Pension Funding Requirements

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

In addition, certain employees are covered by a noncontributory defined benefit plan, the Staff Pension Plan (the "SPP"), that was closed to new participants in 1997. Benefits are based on years of service and an employee's compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The financial performance of pension fund investments of the SPP can have a significant impact on the amount of pension expense and the recorded pension liability, as well as the amount and timing of pension contributions. Other factors can also have a significant impact on pension expense and contributions, such as interest rate levels and salary inflation. Taken together, these factors can have a material impact on both the results of operations and liquidity. As of August 31, 2011, the SPP had a net benefit liability recognized in the amount of \$51.5 million.

The Corporation anticipates contributing approximately \$9.3 million to the SPP during the fiscal year ending August 31, 2012 and expects to contribute a total of approximately \$47 million over the next five years to bring the SPP to a funding status of 100%, based upon current estimates. Based on preliminary analysis as of March 31, 2012, the Corporation's funded status with respect to the SPP was estimated at 80% as of January 1, 2012. The funded status assumes a discount rate on SPP assets of 5.50%. The Corporation's investment policy for the SPP assets targets a portfolio mix of 50% equity and 50% long-term debt.

The Corporation also provides post-retirement health insurance coverage for employees meeting specific criteria in the plan, the Postretirement Medical Benefit Plan (the "PMBP"). As of August 31, 2011, the Corporation recognized a net benefit liability of \$70.6 million for the PMBP, recorded as a liability within self-insurance reserves and other on the consolidated balance sheet.

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

Capitalization

The table below, prepared by management of the Corporation, sets forth the actual consolidated capitalization of the Corporation and Subsidiaries as of August 31, 2011 and as of the six months ended February 29, 2012, and the consolidated capitalization of the Corporation and Subsidiaries, as of the six months ended February 29, 2012, as adjusted to reflect the issuance of the Bonds, the issuance of \$340,000,000 in aggregate principal amount of the California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics), 2012 Series A Bonds (the "2012 Series A Bonds"), \$68,320,000 in aggregate principal amount of the California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics), 2012 Series B Bonds (the "2012 Series B Bonds") and \$100,000,000 in aggregate principal amount of the California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics), 2012 Series D Bonds (the "2012 Series D Bonds"), and the refunding of the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2003 Series A (the "Prior Bonds"). The information included in the table below with respect to the fiscal year ended August 31, 2011 has been derived from information that is contained in the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement, and the information included with respect to the six months

ended February 29, 2012 has been derived by management from unaudited financial statements of the Corporation for such period.

TABLE 9
Consolidated Capitalization
(Dollars in Thousands)

	As of August 31, 2011	As of February 29, 2012	
	Actual		As Adjusted
Net Long-Term Debt ⁽¹⁾	\$ 807,614	\$ 795,831	\$1,290,041
Unrestricted Net Assets	1,089,408	1,157,235	1,157,235
Total Consolidated Capitalization	<u>\$1,897,022</u>	<u>\$1,953,066</u>	<u>\$2,447,276</u>
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	<u>42.6%</u>	<u>40.8%</u>	<u>52.7%</u>

⁽¹⁾ Net long-term debt includes debt subject to short-term remarketing arrangements classified as current liabilities in the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement. Assumes the issuance of \$60,000,000 in principal amount of the Bonds, \$340,000,000 in principal amount of the 2012 Series A Bonds, \$68,320,000 in principal amount of the 2012 Series B Bonds and \$100,000,000 in principal amount of the 2012 Series D Bonds.

Source: Corporation Records.

Cash and Investments

As of August 31, 2011, the Corporation's funds were invested across three portfolios that included: a liquidity portfolio, consisting of cash and cash equivalents; a short-term portfolio, invested in a short-term treasury mutual fund; and a long-term portfolio that invests in shares of the pools managed by Stanford University. The shares in Stanford University's pooled funds are invested in cash and cash equivalents, government and corporate debt securities, equity securities, mutual funds, real estate, investments in partnerships and other investments. The Corporation's investments in the pooled funds managed by Stanford University are carried on its financial statements based on a value per share in such funds. Gains or losses are realized only upon the sale of such shares. For additional information regarding the composition of the Corporation's investments at August 31, 2011, accounting for the Corporation's interest in pooled funds managed by Stanford University and earnings therefrom, see Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement.

Liquidity

The following table, prepared by management of the Corporation, sets forth the consolidated cash position and liquidity of the Corporation and its subsidiaries as of August 31, 2011 and as of the six months ended February 29, 2012.

TABLE 10

**Consolidated Liquidity
(Dollars in Thousands)**

	<u>As of August 31, 2011</u>	<u>As of February 29, 2012</u>
Cash and Cash Equivalents	\$ 414,604	\$ 447,625
Investments	117,417	86,334
Investments in Stanford University Managed Pools ⁽¹⁾	844,139	894,587
Less Temporarily and Permanently Restricted Cash and Investments included above	(86,672)	(55,392)
Total Liquid Assets	<u>\$1,289,488</u>	<u>\$1,373,154</u>
Days Cash on Hand ⁽²⁾	<u>255.9</u>	<u>268.8</u>

⁽¹⁾ See Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement for a description of the managed pools of Stanford University in which the Corporation has invested.

⁽²⁾ Total liquid assets times 365/366 days divided by the total operating expenses net of depreciation and amortization. As of February 29, 2012, the total operating expenses net of depreciation reflects the trailing twelve-month period ended February 29, 2012.

Source: Corporation Records.

Debt Service Coverage

The following table, prepared by management of the Corporation, sets forth the actual maximum debt service coverage for the Corporation on a consolidated basis for fiscal years ended August 31, 2010 and 2011, and pro forma debt service coverage, taking into account the increase in Maximum Annual Debt Service resulting from the issuance of the Bonds, the issuance of the 2012 Series A Bonds, the 2012 Series B Bonds and the 2012 Series D Bonds and the refunding of the Prior Bonds, in each case calculated based on the assumptions set forth in footnote 1 below.

TABLE 11
Maximum Annual Debt Service Coverage
(Dollars in Thousands)

	As of August 31,		
	2010	2011	2011
	Actual		Pro Forma
(Deficiency) excess of revenues over expenses	\$ 80,400	\$296,602	\$296,602
Depreciation and Amortization	96,198	96,918	96,918
Interest Expense	39,749	45,821	45,821
Change in value of Stanford University Managed Pools	(68,138)	(116,058)	(116,058)
Interest Rate Swap Mark-to-Market Adjustments	79,054	(672)	(672)
Loss on Extinguishment of Debt	12,994	-	-
Funds Available for Debt Service	\$240,257	\$322,611	\$322,611
Maximum Annual Debt Service ⁽¹⁾	\$ 47,109	\$ 49,985	\$ 72,906
Coverage of Maximum Annual Debt Service	5.10	6.45	4.43

⁽¹⁾ Assumes that interest on currently outstanding bonds with variable interest rates is payable at the rate determined in accordance with the related interest rate swap transaction for such series to the final maturity of the related interest rate swap transaction. For subsequent periods after the maturity of the interest rate swap transaction until maturity of the related bonds, assumes that interest is payable at 4.0% per annum. Assumes that the 2012 Series A Bonds are issued in the principal amount of \$340,000,000 and bear interest at 5.00%, equal to the average interest rate on the 2012 Series A Bonds, to maturity; the 2012 Series B Bonds are issued in the principal amount of \$68,320,000 and bear interest at 4.57%, equal to the average interest rate on the 2012 Series B Bonds, to maturity; the 2012 Series D Bonds are issued in the principal amount of \$100,000,000 and bear interest at the related interest rate swap rate of 4.314% to maturity; and the Bonds are issued in the principal amount of \$60,000,000 and bear interest at the related interest rate swap rate of 3.365% until 2036 and 2.63% thereafter to maturity.

Source: Corporation Records.

Interest Rate Swap Arrangements

The Corporation enters into interest rate swap contracts (“Swaps”) from time to time to increase or decrease its variable rate debt exposure and to achieve a targeted mix of fixed and floating rate indebtedness. As of August 31, 2011 and February 29, 2012, the Corporation had 14 floating-to-fixed rate Swaps outstanding, representing a total notional amount of approximately \$749 million and \$747 million, respectively, under which the Corporation pays a fixed rate and receives a variable rate from the swap counterparty. Each of the Swaps may be terminated by the Corporation at its option at any time. Swap counterparties may also terminate Swaps upon the occurrence of certain “termination events” or

“events of default.” If either the Corporation or a counterparty terminates a Swap with a negative market value, the Corporation may be required to make a termination payment to such counterparty, and such payment could be material in amount. The estimated fair values of the Swaps are determined using available market information and valuation methodologies. The Corporation recognizes changes in the fair value of Swaps in excess (deficiency) of revenue over expenses. As of August 31, 2011 and February 29, 2012, the Corporation’s mark-to-market liability on the Swaps totaled approximately \$167 million and \$204 million, respectively. In addition, the Corporation is required to post collateral under two of its Swaps to secure its obligations to the Swap counterparty when the counterparty’s exposure exceeds certain stated thresholds. The Corporation maintains a stand-by letter of credit in the amount of \$30 million as of August 31, 2011 to satisfy its collateral posting obligations and obviate the need to retain liquidity to support the collateral obligations. As of August 31, 2011 and February 29, 2012, the Corporation was not required to post any collateral other than standby letters of credit. See Note 2 and Note 9 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement for more information related to the Corporation’s Swaps.

Sources of Revenue

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

The following table, prepared by management of the Corporation, summarizes the percentage of gross patient revenues by source of payment to the Corporation for the fiscal years ended August 31, 2009, 2010 and 2011.

TABLE 12

Gross Patient Service Revenues

Source	Fiscal years ended August 31,		
	2009	2010	2011
Medicare	29%	32%	32%
Medi-Cal	6	5	6
Managed Care	53	52	53
Self-Pay and Other	12	11	9
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 Medicare, Medi-Cal and a number of managed care programs are typically paid at amounts that are less than usual and customary charges.

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

Arrangements with Managed Care Plans

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.

The largest volume commercial payers for the Corporation in fiscal year ended August 31, 2011 were Aetna, Anthem Blue Cross, Blue Shield of California, CIGNA, HealthNet, and United/PacifiCare. All commercial agreements are fee-for-service. Fee-for-service reimbursement employs the traditional methodologies including percent of charges, per diems, case rates, surgical schedules and stop-loss.

Hospital Fee Program

Effective December 31, 2010, CMS approved State legislation that provided for supplemental payments to certain hospitals, funded by fees paid by participating hospitals and by federal matching funds (the “Hospital Fee Program”). The program covered the 21-month period from April 1, 2009 through December 31, 2010. The Hospital received approximately \$37.4 million in net revenue from supplemental payments and paid a provider fee of approximately \$29.5 million, which are recorded in net patient service revenue and expenses for the fiscal year 2011

In April 2011, the State extended the Hospital Fee Program for the period January 1 through June 30, 2011. Receipts under this extension were approximately \$14.3 million and were recorded in accounts payable and accrued liabilities in for the fiscal year 2011, pending approval of the extension from CMS. Related fee expense of approximately \$9.9 million was recorded in prepaid expenses and other for fiscal year 2011. In December 2011, CMS approved the Hospital Fee Program extension and the deferred amounts will be reflected as revenue and expense in the financial statements for fiscal year 2012.

For more information about the Hospital Fee Program, see “BONDHOLDERS’ RISKS—Patient Service Revenues—Hospital Tax” in the forepart of this Official Statement.

ACCREDITATION, LICENSURE, MEDICARE AND MEDICAL CERTIFICATION

The California Department of Public Health (“CDPH”) 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 July 2010. 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.

In addition to recurring accreditation surveys by The Joint Commission, the Corporation is subject from time to time to incident-based surveys by CDPH, acting on behalf of CMS, to determine compliance with Medicare’s conditions of hospital participation. If such surveys, known as “validation surveys,” substantiate the provider’s noncompliance with conditions of Medicare program participation, CMS has authority to require the provider to be surveyed by CDPH and to take other enforcement action, including termination of provider agreements. In response to a single patient care incident in January 2012 that the Corporation timely reported to CDPH, CDPH conducted a validation survey, and CMS thereafter determined that the Corporation was not in compliance with certain conditions of participation solely related to the incident. CMS informed the Corporation by letter dated May 4, 2012 that it had removed the Corporation’s deemed status (i.e., its right to rely on The Joint Commission accreditation to evidence compliance with Medicare conditions of participation). As a result, the Corporation is subject to CDPH survey oversight. The Corporation has implemented corrective actions and will submit a plan of correction to CMS by May 18, 2012, after which CDPH will conduct a resurvey. In the meantime, the Corporation remains a Medicare participating hospital, is fully licensed and fully accredited. Management

believes that the Corporation will be found in compliance with Medicare conditions of participation and will retain its status as a Medicare provider.

PROFESSIONAL LIABILITY AND OTHER INSURANCE

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

For the policy year September 1, 2010 to September 1, 2011, SUMIT retains 100% of the risk for the first \$15 million of losses by the Corporation, LPCH and the School of Medicine with an annual policy aggregate of \$45 million. SUMIT has obtained \$115 million of excess reinsurance jointly covering the Corporation, LPCH and the School of Medicine. For policy years before September 1, 2005, SUMIT provided occurrence-based coverage of the risk related to the primary loss layer in amounts varying year to year since SUMIT was established in April 2000.

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

LITIGATION AND REGULATORY MATTERS

At any given time, the Corporation has lawsuits pending and threatened against it that may or may not be covered in whole or in part by insurance. At present, the Corporation is a defendant in putative class action litigation filed in the Superior Courts for Los Angeles County and Santa Clara County, on September 28 and October 5, 2011, respectively, arising from the communication to a third party of SHC patient information by a billing and collections vendor of SHC. The incident occurred because a vendor, who had lawfully received encrypted patient information from SHC, provided the information, without authorization, in unencrypted format to a third party who then posted a technical query (about graph formatting) on a website, with an attachment that contained the information. The plaintiffs in these cases seek damages, including statutory damages of \$1,000 per patient (\$10,000 per patient or treble actual damages for a subgroup claiming protection under a state mental health law), attorneys' fees and costs.

Neither lawsuit has been certified as a class action. SHC is vigorously defending these lawsuits on the grounds that SHC complied with all requirements for the handling of patient information and that, as between SHC and the vendor, the alleged privacy breach is the sole responsibility of the vendor, who

has been named a co-defendant in the lawsuits. SHC has responded to inquiries from the U.S. Department of Health and Human Services Office for Civil Rights (“HHS”) and the U.S. Department of Education on this matter, and HHS found no deficiency and closed its investigation. SHC previously responded to an inquiry from the California Department of Public Health, which similarly concluded that SHC had not violated any law. The litigation is in an early stage and, at this point, the final outcome of either case cannot be predicted. Given that the litigation is still in a very preliminary stage, there can be no assurance that the litigation or other legal actions arising from this disclosure of patient information will not have a material adverse effect on the Corporation’s future financial position or financial results of operations.

There is not now pending or threatened any litigation restraining or enjoining the offering of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they were 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.

EMPLOYEES

As of August 31, 2011, the Corporation employed 5,394 full-time, 834 regular part time and 363 per diem/PRN (as needed) staff, equivalent to 5,738 full-time equivalent (“FTE”) employees excluding leased employees to LPCH.

As of August 31, 2011, the Corporation employed 2,071 full and part-time registered nurses, consisting of 1,686 FTE registered nurses, 12 FTE licensed practical nurses. Turnover rate for the nursing staff for the past twelve months was approximately 7.3% for registered nurses.

The Corporation leases 2,880 employees (2338 FTE) to LPCH, of which 245 (211 FTE) work in shared services. For additional information concerning shared services, see “FACILITIES, OPERATIONS AND SERVICES—Operational Relationships among the Corporation, Stanford University, LPCH and UHA” herein.

As of August 31, 2011, approximately 36% of the Corporation’s employees (excluding LPCH leased employees) were covered by collective bargaining arrangements with two bargaining units that are represented by Committee for Recognition of Nursing Achievement (“CRONA”) and Service Employees International Union (“SEIU”), respectively. The current CRONA contract is in effect through March 31, 2013. The contract with SEIU is in effect through August 31 2014.

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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, 2011 and 2010**

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Stanford Hospital and Clinics and Subsidiaries

Index

August 31, 2011 and 2010

	Page(s)
Report of Independent Auditors.....	1
Consolidated Financial Statements:	
Consolidated Balance Sheets.....	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows.....	4
Notes to Consolidated Financial Statements.....	5-37

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Report of Independent Auditors

To the Board of Directors
Stanford Hospital and Clinics and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Stanford Hospital and Clinics and subsidiaries ("SHC") at August 31, 2011 and 2010 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.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 14, 2011

Stanford Hospital and Clinics and Subsidiaries
Consolidated Balance Sheets
August 31, 2011 and 2010
(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 414,604	\$ 334,344
Assets limited as to use, held by trustee	279	280
Patient accounts receivable, net of allowance for doubtful accounts of \$79,000 and \$78,000 at August 31, 2011 and 2010, respectively	287,211	258,553
Other receivables	31,965	28,562
Inventories	19,657	19,148
Prepaid expenses and other	22,230	9,893
Total current assets	<u>775,946</u>	<u>650,780</u>
Investments	117,417	80,817
Investments in University managed pools	844,139	676,598
Assets limited as to use, held by trustee, net of current portion	709	712
Property and equipment, net	865,330	860,273
Other assets	145,808	63,521
Total assets	<u>\$ 2,749,349</u>	<u>\$ 2,332,701</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 124,487	\$ 102,723
Accrued salaries and related benefits	92,965	101,378
Due to related parties	28,219	22,885
Third-party payor settlements	22,659	19,907
Current portion of long-term debt	11,396	4,969
Debt subject to short-term remarketing arrangements	168,200	358,000
Self-insurance reserves and other	23,125	21,892
Total current liabilities	<u>471,051</u>	<u>631,754</u>
Self-insurance reserves and other, net of current portion	101,679	104,168
Other long-term liabilities	174,151	174,286
Pension liability	51,569	74,629
Long-term debt, net of current portion	639,414	463,218
Total liabilities	<u>1,437,864</u>	<u>1,448,055</u>
Net assets:		
Unrestricted:		
Stanford Hospital and Clinics	1,078,759	785,092
Noncontrolling interests	10,649	-
Total unrestricted	<u>1,089,408</u>	<u>785,092</u>
Temporarily restricted	215,585	93,062
Permanently restricted	6,492	6,492
Total net assets	<u>1,311,485</u>	<u>884,646</u>
Total liabilities and net assets	<u>\$ 2,749,349</u>	<u>\$ 2,332,701</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, 2011 and 2010
(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net patient service revenue	\$ 2,123,716	\$ 1,891,342
Other revenue	61,885	71,193
Net assets released from restrictions used for operations	5,503	4,771
Total operating revenues	<u>2,191,104</u>	<u>1,967,306</u>
Operating expenses:		
Salaries and benefits	890,497	839,916
Professional services	25,329	22,118
Supplies	294,543	271,026
Purchased services	490,096	453,532
Provision for doubtful accounts, net	82,247	68,426
Depreciation and amortization	96,918	96,198
Interest	45,821	39,749
Other	171,978	153,058
Expense recoveries from related parties	(78,902)	(76,787)
Total operating expenses	<u>2,018,527</u>	<u>1,867,236</u>
Income from operations	172,577	100,070
Interest and investment income	7,295	4,240
Increase in value of University managed pools	116,058	68,138
Interest rate swaps mark to market adjustments	672	(79,054)
Loss on extinguishment of debt	-	(12,994)
Excess of revenues over expenses	<u>296,602</u>	<u>80,400</u>
Other changes in unrestricted net assets:		
Transfer to Stanford University, net	(6,968)	(7,956)
Transfer to University Healthcare Alliance	(13,224)	-
Transfer from Lucile Salter Packard Children's Hospital	5,859	-
Change in net unrealized gains on investments	(186)	680
Net assets released from restrictions used for:		
Purchase of property and equipment	3,590	11,872
Change in pension and postretirement liability	12,902	(30,467)
Noncontrolling capital contribution, net	3,425	-
Increase in unrestricted net assets	<u>302,000</u>	<u>54,529</u>
Changes in temporarily restricted net assets:		
Transfer from Stanford University	352	2,789
Transfer from (to) Lucile Salter Packard Children's Hospital	3	(10)
Contributions and other	128,475	34,729
Investment income	364	140
Gains on University managed pools	2,422	2,106
Net assets released from restrictions for:		
Operations	(5,503)	(4,771)
Purchase of property and equipment	(3,590)	(11,872)
Increase in temporarily restricted net assets	<u>122,523</u>	<u>23,111</u>
Increase in net assets	<u>424,523</u>	<u>77,640</u>
Net assets, beginning of year, as previously reported	884,646	807,006
Cumulative effect of change in accounting principle	2,316	-
Net assets, beginning of year, as adjusted	<u>886,962</u>	<u>807,006</u>
Net assets, end of year	<u>\$ 1,311,485</u>	<u>\$ 884,646</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, 2011 and 2010
(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 424,523	\$ 77,640
Cumulative effect of change in accounting principle	2,316	-
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Noncontrolling interests in subsidiaries	(10,649)	-
Transfer of Menlo Health Alliance net assets to UHA	8,324	-
Loss on extinguishment of debt	-	12,994
Depreciation and amortization of bond premiums/discounts	95,940	96,535
Provision for doubtful accounts	82,247	68,426
Change in fair value of interest rate swaps	(672)	79,054
Increase in value of University managed pools	(116,058)	(68,138)
Unrealized gains on investments	(1,371)	(1,755)
Realized gains on investments	(31)	(110)
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	(114,158)	(25,779)
Premiums received from bond issuance	1,534	14,236
Changes in operating assets and liabilities:		
Patient accounts receivable	(113,343)	(73,680)
Due to related parties	1,209	(4,933)
Other receivables, inventory, other assets, prepaid expenses and other	(10,934)	(10,036)
Accounts payable, accrued liabilities and pension liabilities	11,784	(9,285)
Accrued salaries and related benefits	(6,249)	9,543
Third-party payor settlements	2,752	474
Self-insurance reserves	(1,256)	16,946
Cash provided by operating activities	<u>255,908</u>	<u>182,132</u>
Cash flows from investing activities:		
Purchases of investments	(47,867)	(20,095)
Sales of investments	11,112	16,660
Purchases of investments in University managed pools	(50,984)	(78,099)
Sales of investments in University managed pools	1,058	4,530
Decrease in assets limited as to use and other	4	48,116
Purchases of property and equipment	(109,241)	(124,300)
Cash used in investing activities	<u>(195,918)</u>	<u>(153,188)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	272,365	366,415
Costs of issuance of debt	(1,802)	(3,665)
Payment of long-term debt and capital lease obligations	(280,817)	(390,661)
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	30,524	1,809
Cash provided by (used in) financing activities	<u>20,270</u>	<u>(26,102)</u>
Net increase in cash and cash equivalents	80,260	2,842
Cash and cash equivalents, beginning of year	<u>334,344</u>	<u>331,502</u>
Cash and cash equivalents, end of year	<u>\$ 414,604</u>	<u>\$ 334,344</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 45,551	\$ 40,042
Supplemental disclosures of non cash information:		
Payables for property and equipment	\$ (503)	\$ (8,784)
Equity transfers (to) from related parties, net	(6,624)	6,022

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)

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 13.

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

Stanford Hospital's interest in MHA was 100% for the four month period ended December 31, 2010 and the year ended August 31, 2010. Effective January 1, 2011, MHA's tax identification number was utilized to create University Healthcare Alliance ("UHA"). Stanford Hospital transferred all existing assets and liabilities of MHA to UHA, which totaled \$8,324 at January 1, 2011, and is reflected as an equity transfer on the consolidated statements of operations and changes in net assets. UHA, a physician practice management organization, will support Stanford University Medical Center's mission of delivery of quality care to the community and conduct research and education. In addition, UHA will lead the development of a high quality clinical delivery network, built on collaboration with and sponsorship of community hospitals, on behalf of the SoM, SHC, LPCH, and UHA physicians. The SoM, SHC and LPCH comprise the three members of UHA, and appoint directors to the governing board. For the year ended August 31, 2011, SHC does not have control or exert significant influence over UHA and therefore the activities of UHA have not been consolidated or recorded using the equity method of accounting into the consolidated financial statements of SHC.

Effective January 1, 2011, SHC entered into a sponsorship agreement with UHA; whereby, SHC agreed to certain funding for the development and operation of UHA and continued additional funding for future or alternative clinical sites of UHA. Additional funding by SHC to UHA for operations and capital of \$4,900 is also treated as an equity transfer and is recorded in other changes in unrestricted net assets in the statements of operations and changes in net assets.

Stanford Hospital's share of net assets in SUMIT, a captive insurance carrier, was 82.3% and 97.1% for the years ended August 31, 2011 and 2010, respectively. LPCH's share of net assets in SUMIT was 17.7% for the year ended August 31, 2011 and is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets. LPCH's share of net assets in SUMIT was 2.9% for the year ended August 31, 2010 and is recorded as a minority interest in accounts payable and accrued liabilities on the consolidated balance sheets.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

1. Organization (Continued)

SEROC is a joint venture between Stanford Hospital and Emanuel Medical Center (“EMC”). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. Stanford Hospital’s interest in SEROC was 60% during the years ended August 31, 2011 and 2010. The remaining interest of 40% is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets as of August 31, 2011. At August 31, 2010 the remaining 40% was recorded as a 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 (through December 31, 2010), SUMIT and SEROC, which are controlled and owned more than 50% by Stanford Hospital. All significant inter-company accounts and transactions are eliminated in the consolidation.

Basis of Presentation

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

- **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.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use, Held by Trustee

Assets limited as to use include accounts held with a trustee to cover professional liability claims and consist of cash and cash equivalents. Amounts required to fund current liabilities of SHC have been classified as current assets in the consolidated balance sheets at August 31, 2011 and 2010.

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 and mutual funds and are stated at fair value. Fair value is determined in accordance with current accounting guidance as further described in Note 7. Investment earnings (including realized gains and losses on investments, interest, dividends and impairment loss on investment securities) are included in investment income unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from the appropriate net asset category based on the donor's restriction. Unrestricted unrealized gains and losses on other than trading securities are separately reported below the excess of revenues over expenses.

Investments in University managed pools

Investments in University managed pools consist of funds invested in the University's Merged Pool ("MP") and Expendable Funds Pool ("EFP") (collectively the "Pools"). Under the terms of SHC's agreement with the University, the University has discretion to invest the funds in the Pools. SHC may deposit funds in the Pools at its discretion. Withdrawals from the MP and EFP require advance notice to the University. SHC accounts for its share of the Pools in accordance with current accounting guidance. The value of its share of the Pools is determined by the University and is based on the fair value of the underlying assets in the Pools.

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

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

Property and Equipment

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

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

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment (continued)

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

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

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

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

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently accreted over the useful lives of the related assets. SHC recorded current period accretion expense of \$317 and \$324 in the consolidated statements of operations and changes in net assets for the years ended August 31, 2011 and 2010, respectively. ARO liability of \$7,099 and \$6,782 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2011 and 2010, respectively.

Other Assets

Other assets include deferred financing costs, long-term portion of contributions receivable, investments in Stanford PET-CT, LLC ("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.

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 PET-CT was 50% for the years ended August 31, 2011 and 2010. As SHC has 50% ownership and does not have control, these investments are recorded using the equity method.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

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. 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. In accordance with current accounting guidance, the discount rates were determined using the risk free rate adjusted for the risk of donor default. Amortization of the discount is included in contributions and other in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

Premiums and Discounts on Long-Term Debt

Premiums and discounts arising from the original issuance of long-term debt are amortized on either the effective interest method or the 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 current accounting guidance. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. The net cash payments or receipts under the interest rate swap agreements have been recorded as an increase (decrease) to interest expense.

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

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

Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, include transfers of assets to and from affiliates for other than goods and services, change in unrealized gains and losses on marketable investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in pension and postretirement liability and other changes related to noncontrolling interests.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers. 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.

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

Stanford Hospital is a not-for-profit corporation and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Stanford Hospital has no uncertain tax positions pertaining to unrelated business income. SUMIT is currently exempt from all taxes until March 28, 2016.

Self-Insurance Plans

SHC self-insures for professional liability risks, postretirement medical benefits, workers' compensation and health and dental benefits. 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 \$5,756. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first \$15,000 per occurrence. The next \$115,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.
- **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)

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.

Concentration of Credit Risk

Financial instruments, which potentially subject SHC to concentrations of credit risk, consist principally of cash and cash equivalents, patient accounts receivable, and investments in University managed pools.

SHC's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of patients and payers. Patient accounts receivable consist of amounts due from commercial insurance companies, governmental programs, private pay patients and other third-party payers.

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 payers, retirement plan obligations, and self insurance reserves. Actual results could differ from those estimates.

Recent Pronouncements

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative non-governmental U.S. generally accepted accounting principles ("U.S. GAAP").

During 2011, SHC adopted guidance on noncontrolling interests applicable to not-for-profit entities, which requires that the noncontrolling interests of consolidated entities be reported as a component of unrestricted net assets. In order to conform to this new guidance, the August 31, 2011 net asset beginning balance was adjusted to incorporate these noncontrolling interests.

In January 2010, an update to the ASC was issued which expanded the required disclosures about fair value measurements. In particular, this guidance requires: (1) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers; (2) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements; (3) fair value measurement disclosures for each class of assets and liabilities; and (4) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. This guidance is effective for the fiscal year beginning September 1, 2010 except for (2) above which is effective for the fiscal year beginning September 1, 2011. This guidance did not impact SHC's financial statement disclosures.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements (continued)

For the fiscal year ending August 31, 2012, SHC will be required to disclose or record the impact of two updates to the ASC which will require cost to be used as the measurement for charity care disclosure purposes and will eliminate the ability for health care entities to net insurance recoveries against related claim liabilities. SHC does not believe these accounting standards will have a material impact on the financial position of the hospital or disclosures required in the financial statements.

3. Net Patient Service Revenue

SHC has agreements with third-party payers that provide for payments at amounts different from SHC's established rates. A summary of payment arrangements with major third-party payers 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, 2004.

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 payers 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.

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

3. Net Patient Service Revenue (Continued)

Amounts due from Blue Cross, Medicare, and Blue Shield as a percentage of net patient accounts receivable at August 31 are as follows:

	<u>2011</u>	<u>2010</u>
Blue Cross	22%	20%
Medicare	14%	15%
Blue Shield	10%	10%

SHC does not believe significant credit risks exist with these payers.

SHC recognized net patient service revenue of \$2,816 and \$5,271 as a result of prior years favorable developments related to reimbursement for the years ended August 31, 2011 and 2010, respectively. SHC also recognized revenues of \$2,372 and \$2,662 as a result of prior years appeals settled during the years ended August 31, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Medicare	\$ 420,799	\$ 380,837
Medi-Cal	66,112	32,175
Managed Care - Capitation	31	7,296
Managed Care - Discounted Fee for Services	1,392,481	1,252,327
Self pay and other	201,952	173,204
Related party	42,341	45,503
Total	<u>\$ 2,123,716</u>	<u>\$ 1,891,342</u>

Provider Fee

The State of California enacted AB 1383 in 2009, as amended by AB 1653 in 2010, which established a Hospital Quality Assurance Fee Program ("QAF") and a Hospital Fee Program. These programs imposed a provider fee on California general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. The effective period of the Hospital Fee Program was April 1, 2009 through December 31, 2010. The State received final approval from the Centers for Medicare & Medicaid Services ("CMS") in December of 2010 on the rates to pay Medi-Cal managed care plans.

For the year ended August 31, 2011, SHC recognized \$37,421 in net revenue for Medi-Cal Fee-For-Service ("FFS") and Managed Care supplemental payments and \$29,535, in other expense for QAF paid to California Department of Health Care Services ("DHCS").

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

3. Net Patient Service Revenue (Continued)

Provider Fee (continued)

SB 90, which passed in 2011, extended the QAF program for another six months, from January 1, 2011 through June 30, 2011. For the year ended August 31, 2011, SHC submitted QAF to the DHCS and received FFS related to this six month extension. However, in order to recognize any of the components of the QAF Program as Expenses and Hospital Fee Program as Revenue, all items of SB 90 had to have been approved by CMS as of August 31, 2011. CMS did not provide their approvals by August 31, 2011 and, as a result, SHC recorded \$14,284 of FFS in accounts payable and accrued liabilities and \$9,900 of QAF in prepaid expenses and other. Managed care expected payments as part of this six month extension were not recorded, as they have not been paid, nor have they been approved by CMS.

4. Charity Care and Uncompensated Costs

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

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

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

	<u>2011</u>	<u>2010</u>
Charity care at established rates	\$ 86,190	\$ 72,665
Estimated cost of charity care	\$ 21,677	\$ 18,839

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

	<u>2011</u>	<u>2010</u>
Charity care	\$ 21,677	\$ 18,839
Medi-Cal	87,994	85,406
Medicare	95,252	94,804
Total	<u>\$ 204,923</u>	<u>\$ 199,049</u>

5. Contributions Receivable

Contributions receivable and contribution revenue are included in the financial statements in the appropriate net asset category. Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using discount rates ranging from 0.11% to 0.37% as of 2011 and 2010.

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

5. Contributions Receivable (Continued)

Contributions receivable at August 31 are expected to be realized in the following periods:

	<u>2011</u>	<u>2010</u>
In one year or less	\$ 14,157	\$ 11,703
Between one year and five years	61,124	33,397
More than five years	<u>65,859</u>	<u>6,717</u>
	141,140	51,817
Less: discount/allowance	<u>(5,431)</u>	<u>(5,154)</u>
Total contributions receivable, net	135,709	46,663
Less: current portion	<u>(14,101)</u>	<u>(11,551)</u>
Contributions receivable, net of current portion	<u>\$ 121,608</u>	<u>\$ 35,112</u>

Contributions receivable at August 31 are to be utilized for the following purposes:

	<u>2011</u>	<u>2010</u>
Plant replacement and expansion	\$ 139,195	\$ 51,664
Indigent care and other	<u>1,945</u>	<u>153</u>
Total	<u>\$ 141,140</u>	<u>\$ 51,817</u>

Conditional pledges, which depend on the occurrence of a specified future and uncertain event, were \$49,700 at August 31, 2011 and were not recorded in the consolidated balance sheets.

6. Investments and Investments in University Managed Pools

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

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investments:				
Cash and cash equivalents	\$ 71,118	\$ 71,118	\$ 34,634	\$ 34,634
Mutual funds	<u>44,439</u>	<u>46,299</u>	<u>44,137</u>	<u>46,183</u>
Total	<u>\$ 115,557</u>	<u>\$ 117,417</u>	<u>\$ 78,771</u>	<u>\$ 80,817</u>

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

	<u>Fair Value</u>	
	<u>2011</u>	<u>2010</u>
Investments in University managed pools:		
Merged Pool	\$ 840,228	\$ 672,495
Expendable Funds Pool	<u>3,911</u>	<u>4,103</u>
Total	<u>\$ 844,139</u>	<u>\$ 676,598</u>

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

6. Investments and Investments in University Managed Pools (Continued)

The Merged Pool (“MP”) is the primary investment pool in which funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value. The MP’s investments at August 31, 2011 and 2010 consist of approximately 1% and 4% cash and cash equivalents, 3% and 2% fixed income, 22% and 22% public equity securities, 11% and 9% real estate, 9% and 9% natural resources, 27% and 30% absolute returns, and 27% and 24% private equity securities, respectively.

7. Fair Value Measurements

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

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

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

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

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

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

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

7. Fair Value Measurements (Continued)

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

	2011		
	Level 1	Level 2	Total
Assets			
Cash and cash equivalents	\$ 414,604	\$ -	\$ 414,604
Assets limited as to use, held by trustee	988	-	988
Investments	71,118	46,299	117,417
Investments in University managed pools	-	844,139	844,139
Total assets	<u>\$ 486,710</u>	<u>\$ 890,438</u>	<u>\$1,377,148</u>
Liabilities			
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 165,693</u>	<u>\$ 165,693</u>
	2010		
	Level 1	Level 2	Total
Assets			
Cash and cash equivalents	\$ 334,344	\$ -	\$ 334,344
Assets limited as to use, held by trustee	992	-	992
Investments	34,634	46,183	80,817
Investments in University managed pools	-	676,598	676,598
Total assets	<u>\$ 369,970</u>	<u>\$ 722,781</u>	<u>\$1,092,751</u>
Liabilities			
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 166,365</u>	<u>\$ 166,365</u>

8. Property and Equipment

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

	2011	2010
Land and improvements	\$ 27,383	\$ 27,369
Buildings and improvements	829,976	809,558
Equipment	626,598	605,355
	1,483,957	1,442,282
Less: Accumulated depreciation	(803,791)	(729,273)
Construction-in-progress	185,164	147,264
Property and equipment, net	<u>\$ 865,330</u>	<u>\$ 860,273</u>

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

8. Property and Equipment (Continued)

Depreciation and amortization expense totaled \$96,918 and \$96,198 for the years ending August 31, 2011 and 2010, respectively, and is included in the consolidated statements of operations and changes in net assets.

As of August 31, 2011, medical equipment acquired under capital leases totaled \$6,472 and is included in property and equipment in the consolidated balance sheet. Amortization expense under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets. Accumulated amortization was \$5,194 and \$3,900 as of August 31, 2011 and 2010, respectively.

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 \$1,701 and \$1,283 for the years ended August 31, 2011 and 2010, respectively.

9. Long-Term Debt

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

	Year of Maturity	Interest Rates 2011/2010	Outstanding Principal	
			2011	2010
Fixed Rate Obligations				
2003 Series A Revenue Bonds	2023	2.00% to 5.00%	\$ 78,595	\$ 83,400
2008 Series A1 Refunding Revenue Bonds	2040	2.25% to 5.15%	70,360	70,360
2008 Series A2 Refunding Revenue Bonds	2040	1.00% to 5.25%/0.26%	104,100	104,100
2008 Series A3 Refunding Revenue Bonds	2040	1.00% to 5.50%/3.45%	84,165	85,700
2010 Series A Refunding Revenue Bonds	2031	4.00% to 5.75%	149,345	149,345
2010 Series B Refunding Revenue Bonds	2036	4.50% to 5.75%	146,710	146,710
Promissory note	2014	7.03%	539	704
Variable Rate Obligations				
2008 Series B Refunding Revenue Bonds	2045	0.17%/0.24%	168,200	168,200
Total principal amounts			802,014	808,519
Unamortized original issue premiums/discounts, net			16,996	17,668
Current portion of long-term debt			(11,396)	(4,969)
Debt subject to short-term remarketing arrangements			(168,200)	(358,000)
Long-term portion, net of current portion			\$ 639,414	\$ 463,218

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

9. Long-Term Debt (Continued)

In June 2008, the California Health Facilities Financing Authority (“CHFFA”), on behalf of SHC, issued Variable Rate Demand Bonds (“VRDB’s”) in the aggregate principal amount of \$428,500 (the “2008 Bonds”) to refund its previously issued 2006 Bonds. The 2008 Bonds were comprised of \$260,300 of 2008 Series A VRDB’s that were issued as Series A-1, Series A-2, and Series A-3; and \$168,200 of 2008 Series B VRDB’s that were issued as Series B-1 and Series B-2.

In June 2009, SHC remarketed the 2008 Series A-1 bonds in the aggregate principal amount of \$70,500. In June 2010, SHC converted the 2008 Series A-1 bonds from an annual put mode to a long-term fixed interest rate mode. The remarketing of the 2008 Series A-1 bonds generated an original issue premium of approximately \$140; that, pursuant to the requirements of the underlying documents, was used to reduce the principal amount of the bonds from \$70,500 to \$70,360.

Additionally in June 2010, CHFFA, on behalf of SHC, issued fixed rate revenue bonds in the aggregate principal amount of \$296,055 (the “2010 Bonds”) to refund the 1998 Series B bonds and the 2003 Series B, C and D bonds. The 2010 Bonds were comprised of \$149,345 of 2010 Series A bonds, proceeds of which were used to refund the 1998B bonds, and \$146,710 of 2010 Series B bonds, proceeds of which were used to refund the 2003 Series B, C and D bonds. As a result of the bond refinancing, the unamortized bond issuance costs to the 1998 and 2003 and unamortized original issue discount related to the 1998 Bonds were included in loss on extinguishment of debt of \$12,994 for the year ended August 31, 2010.

In June 2011, SHC remarketed the 2008 Series A-2, A-3 and B-2 bonds in the aggregate principal amount of \$272,365. SHC converted both the 2008 Series A-2 bonds from a weekly interest rate mode and the 2008 Series A-3 bonds from a multi-annual put mode to a long-term fixed interest rate mode. The remarketing of the 2008 Series A-3 bonds generated an original issue premium of approximately \$1,535; that, pursuant to the requirements of the underlying documents, was used to reduce the principal amount of the bonds from \$85,700 to \$84,165. SHC converted the 2008 Series B-2 bonds from a weekly interest rate mode to a commercial paper mode. As a part of the conversion, the 2008 Series B-2 bonds were split into two sub-series in the amount of \$42,050 each. Bonds in a commercial paper mode are remarketed for various periods that can be no longer than 270 days and are established at the beginning of each commercial paper rate period. Bondholders in a commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

The 2008 Series B-1 bonds are in a weekly interest rate mode and are remarketed every 7 days at the then prevailing interest rate. Bondholders in a weekly mode have the option of tendering their bonds on a weekly basis. The 2008 Series B bonds are supported by SHC’s self-liquidity. In order to ensure the availability of funds in prior years, SHC had a liquidity agreement with the University. The University and SHC mutually agreed to terminate the agreement effective June 30, 2011. All of the 2008 Series B bonds are classified as current liabilities.

The 2010 Bonds, together with the 2008 Bonds and 2003 Series A Revenue Bonds are collectively referred to as the “Revenue Bonds”. The Revenue Bonds are limited obligations of CHFFA and are payable solely from payments made by SHC. Payments of principal and interest on the Revenue Bonds are collateralized by a pledge against the revenues of SHC secured under a master trust indenture between SHC and the master trustee. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem the Revenue Bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of \$801,475 and \$807,815 as of August 31, 2011 and 2010, respectively.

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

9. Long-Term Debt (Continued)

Scheduled principal payments on long-term debt including unsecured promissory notes are summarized below:

	<u>Scheduled Maturities</u>	<u>Bonds Supported by SHC Liquidity</u>	<u>Total</u>
2012	\$ 11,396	\$ 168,200	\$ 179,596
2013	11,105	-	11,105
2014	12,588	-	12,588
2015	11,775	-	11,775
2016	13,325	-	13,325
Thereafter	573,625	-	573,625
	<u>\$ 633,814</u>	<u>\$ 168,200</u>	<u>\$ 802,014</u>

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term obligations, including debt subject to short term remarketing arrangements, includes payments scheduled to be made in 2012 and the VRDB's supported by SHC's liquidity. The VRDB's supported by self liquidity provide the bondholder with an option to tender the bonds to SHC. Generally accepted accounting principles require that bonds supported by SHC's liquidity be classified as current liabilities.

The estimated fair value of the Revenue Bonds as of August 31, 2011 and 2010 was \$834,517 and \$832,180, 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, 2011 and 2010, \$27,295 of advance refunded bonds, which are considered extinguished, remain outstanding.

Interest Rate Swap Agreements

SHC has entered into various interest rate swap agreements ("swap agreements") with varying maturities through November 2045. SHC uses swap agreements, also known as risk management or derivative instruments, principally to manage interest rate risk and has entered into derivatives to lock in fixed rates for anticipated issuance and refunding of debt. By using swap agreements to manage the risk of changes in interest rates, SHC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes SHC, which creates credit risk. When the fair value of a derivative contract is negative, SHC owes the counterparty and, therefore, it does not possess credit risk. SHC minimizes its credit risk by entering into derivative agreements with at least two counterparties and requiring the counterparty to post collateral for the benefit of SHC based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

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

9. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)

SHC maintains interest rate swap programs on certain of its variable rate revenue bonds. These bonds expose SHC to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, SHC entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. Certain of these agreements involve the exchange of fixed rate payments for variable rate payments based on a percentage of the One Month London Interbank Offered Rate ("LIBOR"). SHC has also entered into agreements for the basis exchange of variable rate payments by SHC based on a fixed percentage of LIBOR for variable rate payments from a counterparty based on scaled percentage of LIBOR. As of August 31, 2011 and 2010, this scaled percentage was 93% of One Month LIBOR, but can range from 61% to 93% based upon the One Month LIBOR Rate on the reset date.

The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2011:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
Series 2003B	\$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
Series 2003C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
Series 2003D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
Series 2003B	48,800	11/15/2036	70% 1-month LIBOR	93% 1-month LIBOR
Series 2003C	48,700	11/15/2036	70% 1-month LIBOR	93% 1-month LIBOR
Series 2003D	52,500	11/15/2036	70% 1-month LIBOR	93% 1-month LIBOR
Subtotal Basis Swaps	150,000 *			
Series 2008A1	70,500	11/01/2040	3.693%	70% 1-month LIBOR
Series 2008A2	104,100	11/01/2040	3.714%	70% 1-month LIBOR
Series 2008A3	85,700	11/01/2040	3.716%	70% 1-month LIBOR
Series 2008B1	84,100	11/01/2016	3.712%	70% 1-month LIBOR
Series 2008B2	84,100	11/01/2016	3.712%	70% 1-month LIBOR
Subtotal LIBOR Swaps	428,500			
Series 2012A	68,350	11/15/2045	4.081%	70% 1-month LIBOR
Series 2012B	68,375	11/15/2045	4.077%	70% 1-month LIBOR
Series 2012C	34,175	11/15/2045	4.008%	70% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	\$ 749,400 *			

* Overlay swaps not included in total notional amount.

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

9. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)

SHC designates its interest rate swaps that are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions caused by changes in interest rates as hedging instruments at the inception of each contract, with the intention of maintaining hedge accounting treatment over the term of the agreement. However, circumstances may arise whereby the representations made at the inception of the agreement became invalid, or the structure of the bonds is changed, resulting in de-designation of the hedge. In June 2008, the underlying bonds that were being hedged were refinanced and as a result, none of the swap agreements are treated as a hedge for accounting purposes.

The fair value of interest rate swaps (all of which are designated as non-hedging instruments) is shown on the balance sheets as of August 31 as follows:

<u>Description</u>	<u>Fair Value</u>		<u>Balance Sheet Location</u>
	<u>2011</u>	<u>2010</u>	
Fixed Payment Swaps	\$ (165,340)	\$ (166,677)	Other long-term liabilities
Basis Swaps	(353)	312	Other long-term liabilities
Total	<u>\$ (165,693)</u>	<u>\$ (166,365)</u>	

The change in fair value of the interest rate swaps (all of which are designated as non-hedging instruments) is shown on the consolidated statements of operations and changes in net assets for the years ended August 31 as follows:

<u>Description</u>	<u>Unrealized Gains (Losses)</u>		<u>Statement of Operations Location</u>
	<u>2011</u>	<u>2010</u>	
Fixed Payment Swaps	\$ 1,337	\$ (79,258)	Interest rate swap mark to market adjustments
Basis Swaps	(665)	204	Interest rate swap mark to market adjustments
Total	<u>\$ 672</u>	<u>\$ (79,054)</u>	

Certain swap agreements require posting of collateral by SHC or the counterparties should the fair market value of the swap agreements exceed a predetermined threshold dollar amount. The collateral thresholds reflect the current credit ratings issued by major credit rating agencies on SHC's and the counterparty's debt. Declines in SHC's or the counterparty's credit ratings would result in decreases in the collateral thresholds and consequently, the potential for additional collateral postings by SHC or the counterparty. In fiscal year 2010, SHC had three standby letters of credit totaling \$75,000 to support collateral requirements under certain interest rate swap agreements. In fiscal year 2011, SHC had one letter of credit related to the swap agreements in the amount of \$20,000. Subsequent to August 31, 2011 this was increased to \$30,000. No amounts have been drawn on this letter of credit as of August 31, 2011. Other than the standby letter of credit, SHC was not required to post additional collateral as of August 31, 2011.

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

9. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)

Upon the occurrence of certain events of default or termination events identified in the derivative contracts, either SHC or the counterparty could terminate the contracts in accordance with their terms. Termination results in the payment of a termination amount by one party that attempts to compensate the other party for its economic losses. If interest rates at the time of termination are lower than those specified in the derivatives contract, SHC will make a payment to the counterparty. Conversely, if interest rates at such time are higher, the counterparty will make a payment to SHC.

Bond Interest Expense

The components of bond interest expense for the years ended August 31 are as follows:

	<u>2011</u>	<u>2010</u>
Interest and fees	\$ 25,579	\$ 19,684
Swap settlements	19,864	19,641
Bond interest expense	<u>\$ 45,443</u>	<u>\$ 39,325</u>
Interest capitalized as a cost of construction	\$ 1,701	\$ 1,283
Bond interest income	\$ -	\$ 19

10. Retirement Plans

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

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 13) totaling \$44,966 and \$42,550 for the years ended August 31, 2011 and 2010, 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 \$505 and \$477 in cash for the years ending August 31, 2011 and 2010, respectively, which represented the current year pension expense related to LPCH leased employees.

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.

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

10. 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, 2011 and 2010, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH leased employees. The total postretirement medical benefit liability was \$88,206 and \$90,850 as of August 31, 2011 and 2010, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of \$70,661 and \$73,110 as of August 31, 2011 and 2010, 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 August 31, as of and for the years ended August 31 are as follows:

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2011	2010	2011	2010
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 130,288	\$ 112,203	\$ -	\$ -
Actual return on plan assets	13,814	14,555	-	-
Employer contributions	19,200	13,750	3,733	3,298
Plan settlements	-	(2,348)	-	-
Participants contributions	-	-	992	782
Benefits paid	(7,939)	(7,193)	(4,725)	(4,080)
Expenses paid	(771)	(679)	-	-
Fair value of plan assets at end of year	<u>\$ 154,592</u>	<u>\$ 130,288</u>	<u>\$ -</u>	<u>\$ -</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 204,917	\$ 177,391	\$ 90,850	\$ 78,828
Service cost	2,516	1,723	2,775	2,357
Interest cost	10,000	10,559	4,157	4,458
Plan settlements	-	(1,872)	-	-
Participants contributions	-	-	992	782
Benefits paid	(7,939)	(7,193)	(4,725)	(4,080)
Expenses paid	(771)	(679)	-	-
Actuarial (gain) loss	(2,562)	24,988	(5,843)	8,505
Benefit obligation at end of year	<u>\$ 206,161</u>	<u>\$ 204,917</u>	<u>\$ 88,206</u>	<u>\$ 90,850</u>

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

10. Retirement Plans (Continued)

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2011	2010	2011	2010
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	\$ (51,569)	\$ (74,629)	\$ (88,206)	\$ (90,850)
Net benefit liability recognized	<u>\$ (51,569)</u>	<u>\$ (74,629)</u>	<u>\$ (88,206)</u>	<u>\$ (90,850)</u>
Amounts recognized in consolidated balance sheets consist of:				
Current liabilities	\$ -	\$ -	\$ (4,912)	\$ (4,827)
Noncurrent liabilities	(51,569)	(74,629)	(83,294)	(86,023)
Net benefit liability recognized	<u>\$ (51,569)</u>	<u>\$ (74,629)</u>	<u>\$ (88,206)</u>	<u>\$ (90,850)</u>
Amounts recognized in accumulated other comprehensive income:				
Prior service cost	\$ -	\$ -	\$ 3,168	\$ 2,594
Net loss	79,584	87,960	3,356	9,895
Accumulated other comprehensive income	<u>\$ 79,584</u>	<u>\$ 87,960</u>	<u>\$ 6,524</u>	<u>\$ 12,489</u>

The estimated net loss for the staff pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$5,376.

The estimated net loss and prior service cost for the postretirement medical plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$245 and \$264, respectively.

Total benefit obligation at the end of the year for Postretirement Medical Benefits excluding Medicare Part D subsidiary decreased to \$95,451.

The accumulated benefit obligation for the defined benefit pension plan was \$202,509 and \$200,545 as of August 31, 2011 and 2010, respectively.

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

10. Retirement Plans (Continued)

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

	Staff Pension Plan Obligations	
	2011	2010
	2011	2010
Service cost	\$ 2,516	\$ 1,723
Interest cost	10,000	10,559
Expected return on plan assets	(12,896)	(12,588)
Amortization of net actuarial loss	4,896	1,120
Total net periodic benefit cost	<u>\$ 4,516</u>	<u>\$ 814</u>

	Postretirement Medical Benefits			
	Net of Medicare Part D Subsidy		Excluding Medicare Part D Subsidy	
	2011	2010	2011	2010
	2011	2010	2011	2010
Service cost	\$ 2,775	\$ 2,357	\$ 2,779	\$ 2,367
Interest cost	4,157	4,458	4,516	4,891
Amortization of prior service credit	(574)	(574)	(574)	(574)
Amortization of net actuarial loss	696	105	1,267	225
Total net periodic benefit cost	<u>\$ 7,054</u>	<u>\$ 6,346</u>	<u>\$ 7,988</u>	<u>\$ 6,909</u>

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2011	2010	2011	2010
	2011	2010	2011	2010
Net (gain) loss arising during period	\$ (3,480)	\$ 23,497	\$ (5,843)	\$ 8,505
Amortizations				
Prior service credit	-	-	574	574
Loss	(4,896)	(1,120)	(696)	(105)
Total recognized in other comprehensive income	<u>\$ (8,376)</u>	<u>\$ 22,377</u>	<u>\$ (5,965)</u>	<u>\$ 8,974</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ (3,860)</u>	<u>\$ 23,191</u>	<u>\$ 1,089</u>	<u>\$ 15,320</u>

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

10. Retirement Plans (Continued)

Actuarial Assumptions

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2011	2010	2011	2010
Weighted-average assumptions				
Discount rate	5.03%	4.99%	4.79%	4.70%
Rate of compensation increase	5.50%	5.50%	N/A	N/A

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2011	2010	2011	2010
Weighted-average assumptions				
Discount rate	4.99%	6.10%	4.70%	5.83%
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 from inception through June 30, 2011 averaged 8.1%. 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, 2011, an 8.5% annual rate of increase in the pre-65 per capita costs, an 8.5% annual rate of increase in the post-65 prescription drug per capita costs, and a 7.0% rate of increase in the post-65 per capita cost of all other medical benefits were assumed for 2011, all declining gradually to 4.75% by 2024, 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 \$2,867 and the aggregate service and interest cost by \$262. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by \$2,605 and the aggregate service and interest cost by \$236.

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

10. Retirement Plans (Continued)

Plan Assets

SHC's staff pension plan weighted-average asset allocations as of the measurement date August 31, 2011 and 2010, respectively, by asset category are as follows:

<u>Asset Category</u>	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Equity securities	45%	44%
Debt securities	55%	50%
Real estate	0%	6%
Total	100%	100%

The following table summarizes SHC's staff pension plan assets measured at fair value on a recurring basis as of August 31, based on the inputs used to value them as defined in Note 7:

	<u>2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 701	\$ -	\$ -	\$ 701
Mutual funds	153,891	-	-	153,891
Total assets	<u>\$ 154,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,592</u>

	<u>2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 607	\$ -	\$ -	\$ 607
Mutual funds	122,223	-	-	122,223
Real estate	-	-	7,458	7,458
Total assets	<u>\$ 122,830</u>	<u>\$ -</u>	<u>\$ 7,458</u>	<u>\$ 130,288</u>

The following table summarizes the changes in the fair value of the staff pension plan Level 3 assets as of August 31:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 7,458	\$ 8,301
Realized (losses) gains	(2,457)	473
Unrealized gains (losses)	3,255	(1,170)
Purchases, sales, issuances and settlements (net)	(8,256)	(146)
Balance, end of year	<u>\$ -</u>	<u>\$ 7,458</u>

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

10. 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 the Employee Retirement Income Security Act. The funds are diversified across asset classes to achieve an optimal balance between risk and return and between income and capital appreciation. Many of the pension liabilities are long term. The investment horizon is also long-term; however, the investment plan also ensures adequate near-term liquidity to meet benefit payments.

The allowable asset mix range and target asset allocations are:

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

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

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

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

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

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying our exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2011, SHC did not have concentrations of risk in any single entity, manager, counterparty, sector, industry or country.

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

10. Retirement Plans (Continued)

Expected Contributions

SHC expects to contribute \$9,320 to its Staff Pension Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2012. SHC expects to contribute \$4,912 to its Postretirement Medical Plan for both SHC and LPCH leased employees during the fiscal year ending August 31, 2012.

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
2012	\$ 9,711	\$ 4,912	\$ 5,427
2013	10,349	5,468	6,040
2014	11,036	5,947	6,579
2015	11,770	6,331	7,027
2016	12,421	6,614	7,376
2017 - 2021	69,696	33,609	38,338

11. Unrestricted Net Assets

The changes in consolidated unrestricted net assets attributable to the controlling financial interest of SHC and the noncontrolling interests, for the years ended August 31, are as follows:

	Unrestricted Net Assets		
	Total	Controlling Interest	Noncontrolling Interests
Balance September 1, 2009	\$ 730,563	\$ 730,563	\$ -
Excess of revenues over expenses	80,400	80,400	-
Other changes in unrestricted net assets	(25,871)	(25,871)	-
Balance August 31, 2010	785,092	785,092	-
Cumulative effect of change in accounting principle	2,316	-	2,316
Excess of revenues over expenses	296,602	291,634	4,968
Noncontrolling capital contribution, net	3,425	-	3,425
Other changes in unrestricted net assets	1,973	2,033	(60)
Balance August 31, 2011	\$ 1,089,408	\$ 1,078,759	\$ 10,649

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

12. Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Plant replacement and expansion	\$ 186,940	\$ 66,579
Other patient services	15,997	14,134
Indigent care	5,573	5,653
Clinical services	3,687	3,483
Education	3,388	3,213
Total	<u>\$ 215,585</u>	<u>\$ 93,062</u>

Permanently Restricted Net Assets

In 2009, California adopted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). SHC has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SHC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

Endowment funds by net asset classification as of August 31, 2011 and 2010 are as follows:

	<u>2011</u>			<u>2010</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment	\$ 7,028	\$ 5,611	\$ 12,639	\$ 5,435	\$ 5,611	\$ 11,046
Pledge receivable	-	881	881	-	881	881
Total endowment	<u>\$ 7,028</u>	<u>\$ 6,492</u>	<u>\$ 13,520</u>	<u>\$ 5,435</u>	<u>\$ 6,492</u>	<u>\$ 11,927</u>

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

12. Temporarily and Permanently Restricted Net Assets (Continued)

Changes in SHC's endowment for the years ended August 31, 2011 and 2010 are as follows:

	2011			2010		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5,435	\$ 6,492	\$ 11,927	\$ 4,373	\$ 6,492	\$ 10,865
Investment return:						
Investment income	289	-	289	98	-	98
Mark to market adjustments	1,557	-	1,557	1,075	-	1,075
Total investment return	1,846	-	1,846	1,173	-	1,173
Expenditures	(253)	-	(253)	(111)	-	(111)
Endowment net assets, end of year	\$ 7,028	\$ 6,492	\$ 13,520	\$ 5,435	\$ 6,492	\$ 11,927

The following provides descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only). The portion of endowment funds that is required to be retained permanently or temporarily, either by explicit donor stipulation or by California UPMIFA, as of August 31, 2011 and 2010 is as follows:

	2011			2010		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Clinical services	\$ 784	\$ 4,000	\$ 4,784	\$ 279	\$ 4,000	\$ 4,279
Education	2,686	1,235	3,921	2,109	1,235	3,344
Plant replacement and expansion	6	901	907	2	901	903
Indigent care and other	3,552	356	3,908	3,045	356	3,401
Total endowment classified as net assets	\$ 7,028	\$ 6,492	\$ 13,520	\$ 5,435	\$ 6,492	\$ 11,927

All of SHC's endowment, totaling \$13,520 and \$11,927 at August 31, 2011 and 2010, respectively, are invested in the MP. The funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Investment Objectives

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

13. 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.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

Expenses paid to the University and the SoM are reported as operating expenses in the consolidated 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 \$291,936 and \$264,846 for the years ended August 31, 2011 and 2010, respectively.

Services provided by the University include telecommunications, transportation, utilities, blood products, and certain administrative services, which consist of legal and internal audit. Total costs incurred by SHC were \$87,266 and \$86,214 for the years ended August 31, 2011 and 2010, 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 \$3,461 and \$3,564 for the years ended August 31, 2011 and 2010, 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 22 years total \$35,116. Annual service fees range from approximately \$3,394 for the year ending August 31, 2012 to \$453 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, and security. Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled \$33,051 and \$32,564 for the years ended August 31, 2011 and 2010, 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 \$7,334 and \$6,613 for the years ended August 31, 2011 and 2010, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries.

During the year ended August 31, 2004, SHC paid \$5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short term portion of \$108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2011 and 2010. The remaining amount included in other assets in the consolidated balance sheets is \$4,350 and \$4,457 as of August 31, 2011 and 2010, respectively.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

For the years ended August 31, 2011 and 2010, SHC transferred \$6,400 and \$6,249, respectively, to the University related to academic grants.

SHC received equity transfers of \$352 and \$2,789 during the years ended August 31, 2011 and 2010, respectively, which represented gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC capital projects.

Transactions with LPCH

Shared Services - SHC and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll, compliance, risk management and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled \$17,955 and \$20,438 for the years ended August 31, 2011 and 2010, 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 \$42,341 and \$45,503 for the years ended August 31, 2011 and 2010, 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, building maintenance and utilities. Reimbursement of these services totaled \$22,977 and \$21,197 for the years ended August 31, 2011 and 2010, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries. SHC also leased 2,884 and 2,750 full time and part time employees to LPCH during the years ended August 31, 2011 and 2010, respectively.

Equity Transfers - SHC received equity transfers of \$5,859 during the year ended August 31, 2011 which represented reimbursement for capital projects.

14. 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, 2011 and 2010 was \$31,197 and \$36,559, respectively.

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

14. Operating and Capital Leases (Continued)

Net minimum future lease payments under all non-cancelable operating leases and capital lease obligations for periods subsequent to August 31, 2011 are as follows:

Year Ending August 31,	<u>Operating</u>	<u>Capital</u>
2012	\$ 28,141	\$ 976
2013	27,276	136
2014	19,945	57
2015	16,367	-
2016	15,846	-
Thereafter	<u>83,728</u>	<u>-</u>
	<u>\$ 191,303</u>	1,169
Less amount representing interest		(30)
Subtotal		<u>1,139</u>
Current portion		(954)
Long-term portion, net of current portion		<u>\$ 185</u>

Capital lease obligations totaled \$1,139 of which \$954 is included in accounts payable and accrued liabilities on the consolidated balance sheets. The remaining capital lease obligation of \$185 is included in other long term liabilities on the consolidated balance sheets.

SHC leases space in its medical office building to others under non-cancelable operating lease arrangements. Future minimum base rentals to be received under these leases in place as of August 31, 2011 are as follows:

Year Ending August 31,	
2012	\$ 433
2013	135
2014	<u>56</u>
	<u>\$ 624</u>

15. Commitments and Contingencies

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

SHC has irrevocable standby letters of credit in the amount of \$13,378, which are required as security for the workers' compensation self-insurance arrangement and \$9,960 to serve as a security deposit for certain construction projects being undertaken by SHC. No amounts have been drawn on these letters of credit as of August 31, 2011.

At August 31, 2011, SHC had contractual obligations of approximately \$96,739 primarily related to the construction of the new hospital and other capital projects to support SHC's operations.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

15. Commitments and Contingencies (Continued)

Effective September 1, 2010, SHC entered into an eight year agreement with a global management consulting, technology services and outsourcing company, pursuant to which SHC will receive certain information technology services. Under the terms of the agreement, SHC will be charged a fixed annual service charge including expenses, payable monthly, for core services as defined, and additional fees plus expenses for special projects. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately \$41,123 for the year ending August 31, 2012, with the remaining amount of \$233,587 due over the life of the contract. 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 changes monthly from \$14,550 for the month ending September 30, 2011 and decreasing gradually to \$1,350 for the month ending February 28, 2018.

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 36%. There are currently no expired agreements.

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. Facilities classified by the State of California as non-compliant in the event of an earthquake must be retrofitted, replaced or removed from acute-care service by applicable deadlines in 2013, 2015, 2020 or 2030.

The California Office of Statewide Health Planning and Development ("OSHPD") has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards until 2030 and beyond. Patient care activities are located in facilities that are structurally compliant until 2030. However, these facilities have utility and other connections to facilities that are only compliant until 2013, or 2015 under prescribed circumstances. SHC plans to construct a new hospital facility to address seismic safety requirements and other needs.

Amendments of the Hospital Seismic Safety Act, through SB 608, permit OSHPD to extend the structural compliance deadline for eligible hospitals from 2013 until January 1, 2016 due to local planning delays. In addition, such legislation authorizes OSHPD to grant two additional one-year extensions, until January 1, 2018, to facilities that meet certain criteria. Separately, SB 90, approved earlier in 2011, allows an extension to January 1, 2020 to hospitals that meet certain eligibility requirements. Management expects SHC to be eligible for such extensions under both SB 90 and SB 608.

Stanford Hospital and Clinics and Subsidiaries

Notes to Consolidated Financial Statements

(in thousands of dollars)

15. Commitments and Contingencies (Continued)

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of the Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. SHC's share of the estimated cost is approximately \$2 billion. As of August 31, 2011, SHC has recorded \$149 million in construction in progress related to this project.

Based on current estimated schedules, management currently projects that the Renewal Project construction will be complete in 2017.

16. Functional Expenses

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

	<u>2011</u>	<u>2010</u>
Patient services	\$ 1,863,368	\$ 1,699,045
Management and general	150,356	163,578
Fundraising	4,803	4,613
Total functional expenses	<u>\$ 2,018,527</u>	<u>\$ 1,867,236</u>

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 14, 2011, the date the financial statements were issued.

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 and effective as of June 16, 2011 (as supplemented and amended from time to time pursuant to its terms, the "Master Indenture"), between Stanford Hospital and Clinics (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), the Supplemental Master Indenture of Trust for Obligation No. 32, dated as of May 1, 2012 ("Supplement No. 32"), between the Corporation and the Master Trustee, between the Corporation and the Master Trustee, the Indenture, dated as of May 1, 2012 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and U.S. Bank National Association, as trustee, and the Loan Agreement, dated as of May 1, 2012 (the "Loan Agreement"), between the Corporation and the Authority. 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, Supplement No. 32, 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

Accountant means, for purposes of the Master Indenture, any independent certified public accountant or firm of independent certified public accountants selected by the Obligated Group Representative.

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

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.

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 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.

Affiliated Corporation means any corporation which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, an Obligated Group Member.

Agreement or Loan Agreement means that certain Loan Agreement, dated as of May 1, 2012, 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.

Alternate Credit Facility means an irrevocable direct-pay letter of credit containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to, and accepted by,

the Trustee in accordance with the provisions of the Loan Agreement, which replaces a Credit Facility then in effect; provided, however, that any amendment, extension, renewal or substitution of the Credit Facility then in effect for the purpose of extending the Expiration Date of the Credit Facility or modifying the Credit Facility pursuant to its terms (but not including any modification to the conditions to purchase or the automatic termination or suspension events) shall not be deemed to be an Alternate Credit Facility for purposes of the Indenture.

Alternate Liquidity Facility means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or financial institution delivered or made available to, and accepted by, the Trustee in accordance with the provisions of the Loan Agreement which replaces the Liquidity Facility then in effect; provided, however, that any amendment, extension, renewal or substitution of the Liquidity Facility then in effect for the purpose of extending the Expiration Date of such Liquidity Facility or modifying such Liquidity Facility pursuant to its terms (but not including any modification to the conditions to purchase or the automatic termination or suspension events) shall not be deemed to be an Alternate Liquidity Facility for purposes of the Indenture.

Amended Master Indenture Effective Date means June 16, 2011.

Annual Debt Service means for each Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Obligated Group then Outstanding (by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price coming due as a result of a mandatory or optional tender or put), less any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal or interest; provided that if a Financial Products Agreement is being entered into by any Obligated Group Member concurrently or substantially concurrently with the incurrence of Long-Term Indebtedness and with respect to such Long-Term Indebtedness or if a Financial Products Agreement has been entered into by any Obligated Group Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under a Financial Products Agreement payable in such Fiscal Year minus any Financial Product Receipts under a Financial Products Agreement receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service. For purposes of computing Annual Debt Service, the principles and assumptions set forth under the definition of Maximum Annual Debt Service shall be applied.

Applicable Percentage means (a) 100% if the Prevailing Rating is "AAA/Aaa/AAA", (b) 110% if the Prevailing Rating is "AA/Aa/AA", (c) 120% if the Prevailing Rating is "A/A/A", (d) 130% if the Prevailing Rating is "BBB/Baa/BBB" and (e) 150% if the Prevailing Rating is below "BBB/Baa/BBB."

Appraisal Institute means the global membership association of professional real estate appraisers designated by that name or any successor thereto.

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

Authorized Representative means, for purposes of the Master Indenture, with respect to each Obligated Group Member, the chair of its Governing Body, its president or chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of such Obligated

Group Member by a Certificate of that Obligated Group Member signed by the chair of its Governing Body, its president or chief executive officer, or its chief financial officer and filed with the Master Trustee.

Authorized Representative means, for purposes of the Indenture and Loan Agreement, 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.

Available Moneys means (i) moneys drawn under the Credit Facility which at all times since their receipt by the Trustee 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 and have been on deposit with the Trustee for at least 124 days (or, if paid to the Trustee by an "affiliate," as defined in Bankruptcy Code §101(2), of the Corporation or any Member, 367 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. If there is no Credit Facility in effect, Available Moneys shall mean any moneys deposited with the Trustee.

Balloon Indebtedness means either (a) Long-Term Indebtedness or (b) Commercial Paper Indebtedness or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity so that such Commercial Paper Indebtedness or Short-Term Indebtedness, as applicable, and the Indebtedness intended to be used to refinance such Commercial Paper Indebtedness or Short-Term Indebtedness, as applicable, will be scheduled to be outstanding for a total of more than three hundred sixty-five (365) days as certified in an Officer's Certificate, in either case twenty-five percent (25%) or more of the original principal of which matures (or is redeemable at the option of the holder) in the same Fiscal Year, if such twenty-five percent (25%) or more is not to be amortized below twenty-five percent (25%) by mandatory redemption prior to such Fiscal Year.

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

Beneficial Owner means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

Bond Counsel means an attorney-at-law, or firm of such attorneys, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions and acceptable to the Authority.

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

Bonds means California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2012 Series C, authorized by, and at any time Outstanding pursuant to, the Indenture.

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

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

Business Day means any day other than a Saturday, Sunday or a day on which banks located in (a) the State of California or the State of New York, (b) the city or cities in which the Principal Office of the Trustee is located, (c) the city or cities in which the office of the Credit Facility Provider (if any) and/or Liquidity Facility Provider (if any) at which drawings under the Credit Facility and/or Liquidity Facility are to be presented is located, and (d) the city in which the principal office of each Remarketing Agent is located, are required or authorized to remain closed, or on which The New York Stock Exchange is closed.

Calculation Agent means the Trustee, its successors or assigns, or such other Calculation Agent as may be selected by the Corporation.

Certificate, Statement, Request, Consent or Order of any Obligated Group Member or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Obligated Group Member by an Authorized Representative or in the name of the Master Trustee by a Responsible Officer.

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

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

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

Commercial Paper Indebtedness means Indebtedness with a maturity not in excess of two hundred seventy (270) days), the proceeds of which are to be used: (i) to provide interim financing for capital improvements, (ii) to support current operations or (iii) for other corporate purposes. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under the Master Indenture.

Commercial Paper Period means, with respect to any Bond, each period established in accordance with the provisions of the Indenture during which such Bond shall bear interest at a Commercial Paper Rate.

Commercial Paper Rate means, with respect to any Bond, an interest rate on such Bond established periodically in accordance with the provisions of the Indenture.

Completion Indebtedness means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared in connection with the related financing as certified by an Officer's Certificate.

Consumer Price Index means the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers as released monthly by the U.S. Department of Labor, Bureau of Labor Statistics. If a previously reported Consumer Price Index rate is revised, the Consumer Price Index will continue to be the previously reported Consumer Price Index for purposes of calculating the interest rate applicable to the Bonds. If the Consumer Price Index is rebased to a different year, any Bonds using the Consumer Price Index in the formula for calculating the applicable interest rate for the Bonds will continue to use the Consumer Price Index based on the base reference year in effect when the Bonds were issued. If the applicable methodology for computing the Consumer Price Index in effect on the date of issuance of Bonds using the Consumer Price Index in the formula for calculating the applicable interest rate for the Bonds is discontinued or altered and if the U.S. Treasury, in response to such discontinuance or alteration, substitutes an alternative index and associated method of application ("Substitute Index and Methodology") for the Consumer Price Index for purposes of calculating the inflation adjustment for the Treasury Inflation-Protected Securities, Bonds using the Consumer Price Index in the formula for calculating the applicable interest rate for the Bonds will use the Substitute Index and Methodology for calculating the Index Floating Rate. Typically the Consumer Price Index for a particular month is reported by the last day of the following month. If the Consumer Price Index for a particular month is not reported by the last day of the following month, the U.S. Treasury has indicated it will announce an index number based on the last available twelve-month change in the Consumer Price Index. Any calculations of interest on Bonds that rely on that month's Consumer Price Index will be based on the index number that the U.S. Treasury has announced. This index number will be used for all subsequent calculations that rely on that month's index number and will not be replaced by the actual Consumer Price Index when it is reported.

Continuing Disclosure Agreement means that certain Continuing Disclosure Agreement, dated the Issue Date, between the Corporation and U.S. Bank National Association, as trustee and as dissemination agent, relating to the Bonds, as originally executed and as it may be supplemented, modified or amended in accordance with its terms.

Conversion means a conversion of the Bonds from one Interest Rate Period to another Interest Rate Period or adjustment from one Long-Term Interest Rate Period to another Long-Term Interest Rate Period or from one Index Floating Rate Period to another Index Floating Rate Period.

Conversion Date means the effective date of a Conversion of the Bonds.

Corporate Bonds means Bonds owned by the Corporation or any Member or any affiliate of the Corporation or any Member.

Corporate Trust Office means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located at 400 South Hope Street, Suite 400, Los Angeles, California 90071, or at such other or additional offices as shall be specified by the Master Trustee in a writing delivered to the Obligated Group Representative.

Corporation means Stanford Hospital and Clinics, a nonprofit 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.

Corporation Purchase Account means the account by that name in the Bond Purchase Fund established pursuant to the provisions of the Indenture.

Credit Facility means an irrevocable direct-pay letter of credit containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to, and accepted by, the Trustee in accordance with the provisions of the Loan Agreement, or, in the event of the delivery or availability of any Alternate Credit Facility, such Alternate Credit Facility. A Credit Facility may also function as a Liquidity Facility.

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

Credit Facility Provider means, upon the effectiveness of any Credit Facility or Alternate Credit Facility, the bank or banks or other financial institution or financial institutions or other entity that is then a party to the Credit Facility or Alternate 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 related Credit Facility.

Daily Interest Rate means a variable interest rate borne by the Bonds and established in accordance with the provisions of the Indenture.

Daily Interest Rate Period means each period during which a Daily Interest Rate is in effect.

Debt Service Coverage Ratio means, for any Fiscal Year, the ratio determined by dividing Income Available for Debt Service for such Fiscal Year by Maximum Annual Debt Service.

Default means, for purposes of the Master Indenture, an event that, with the passage of time or the giving of notice or both, would become an Event of Default.

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

Electronic Means means email transmission, facsimile transmission or other electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

Electronic Notice means notice delivered by Electronic Means.

Eligible Account means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has a S&P short-term debt rating of at least 'A-2' (or, if no

short-term debt rating, a long-term debt rating of 'BBB+'); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity. In the event that a fund or account required to be an "Eligible Account" no longer complies with the requirements listed above, the Trustee shall promptly (and, in any case, within not more than thirty (30) calendar days) move such fund or account to another financial institution such that the Eligible Account requirements stated above will again be satisfied.

Eligible Bonds means any Bonds other than Liquidity Facility Bonds, Corporate Bonds or Bonds owned by, for the account of, or on behalf of, the Authority.

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 Member or other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture or Obligation No. 32, or an "affiliate" of the Corporation as defined in Bankruptcy Code § 101(2)) 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 Member or 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 conversion of debts; or

(2) a proceeding or case shall be commenced, without the application or consent of the Corporation (or any Member or other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Loan Agreement, the Master Indenture or Obligation No. 32, or an "affiliate" of the Corporation as defined in Bankruptcy Code §101(2)) or the Authority in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or conversion of debts, of the Corporation (or any such other Member or Person) or the Authority, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Corporation (or any such other Member or 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 Member or Person) or the Authority under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or conversion of debts.

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

Existing Financial Products Agreements means the Financial Products Agreements listed on Exhibit A to the Master Indenture.

Existing Obligations means the Obligations listed on Exhibit B to the Master Indenture.

Existing Parity Financial Product Extraordinary Payments means the Parity Financial Product Extraordinary Payments listed on Exhibit C to 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 a particular 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 an Alternate Liquidity Facility delivered in accordance with the provisions of the Loan Agreement, as applicable, 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, as applicable.

Fair Market Value, when used in connection with Property, means the fair market value of such Property as determined by either:

(1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a member of the Appraisal Institute and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee;

(2) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or

(3) an officer of the Obligated Group Representative (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Master Trustee) if the fair market value of such Property is less than or equal to the greater of \$5,000,000 or 2.5% of cash and equivalents as shown on the most recent Financial Statements.

Favorable Opinion of Bond Counsel means an opinion of Bond Counsel, addressed to the Trustee, to the effect that the action proposed to be taken with respect to the Bonds 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 Extraordinary Payments means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated Group Member under a Financial Product Agreement, which payments are not Financial Product Payments.

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

Financial Product Payments means regularly scheduled payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Products Agreement.

Financial Product Receipts means regularly scheduled payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Products Agreement.

Financial Products Agreement means any interest rate exchange agreement, hedge or similar arrangement, including, without limitation, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis, identified to the Master Trustee in an Officer's Certificate of the Obligated Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider: (a) with respect to Indebtedness (which is either then-Outstanding or to be incurred after the date of such Certificate) identified in such Certificate for the purpose of (1) reducing or otherwise managing the Obligated Group Member's risk of interest rate changes or (2) effectively converting the Obligated Group Member's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure; or (b) for any other interest rate, investment, asset or liability management purpose.

Financial Statements means financial statements complying with the provisions set forth in the Master Indenture and described under the caption "Master Indenture - Obligated Group Covenants - Preparation and Filing of Financial Statements, Certificates and Other Information."

Fiscal Year means the period beginning on September 1 of each year and ending on the next succeeding August 31, or any other twelve-month period hereafter designated by the Obligated Group Representative as the fiscal year of the Obligated Group.

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

Fixed Rate Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2012 Series A and 2012 Series B.

Fixed Rate Conversion Date means the date on which the Bonds begin to bear interest for a Long-Term Interest Rate Period which extends to the final Maturity Date of the Bonds.

Funding Amount means the amount of funds, if any, required to be transferred to the Trustee by the Liquidity Facility Provider (if any) or the Corporation in connection with the purchase of Purchased Bonds, which shall be the amount, if any, by which the total Purchase Price of the Purchased Bonds exceeds the remarketing proceeds transferred to the Trustee by the Remarketing Agent pursuant to the provisions of the Indenture and received by the Trustee by 11:45 a.m., New York City Time, on the Purchase Date for the purpose of paying such Purchase Price.

GAAP means accounting principles generally accepted in the United States of America, consistently applied.

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

Government Issuer means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds 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 the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest rating categories of a Rating Agency (without regard to any gradation of such rating category); (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Code, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

Governmental Unit shall have the meaning set forth in Section 150 of the Code.

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

Gross Revenues means all revenues, income, receipts and money now existing or hereafter received by each Obligated Group Member, including: (a) gross revenues collected from its operations and possession of and pertaining to its properties; (b) gifts, grants, bequests, donations and contributions; (c) proceeds derived from (i) condemnation, (ii) insurance, (iii) accounts and accounts receivable, including health-care-insurance receivables, (iv) payment intangibles, (v) inventory and other tangible and intangible property, (vi) medical reimbursement programs and agreements, (vii) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member; and (d) rentals received from the lease of real estate. The terms "accounts," "health-care-insurance receivables," "payment intangibles," and "inventory" as used in the Master Indenture shall have the meanings ascribed to such terms in the California Commercial Code Divisions 8 and 9. Notwithstanding the foregoing, "Gross Revenues" shall not include Restricted Assets.

Guaranty means all loan commitments and all obligations of any Obligated Group Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person, which would, if such other Person were an Obligated Group Member, constitute Indebtedness.

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.

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 which is not registered or is registered to bearer.

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

Immaterial Affiliates means Persons that are not Members of the Obligated Group and whose combined total revenues (calculated as if such Persons were Members of the Obligated Group), as shown on their financial statements for their most recently completed fiscal year, were less than ten percent (10%) of the Total Revenues of the Obligated Group (including the Total Revenues of such Persons) as shown on the Financial Statements for the most recently completed Fiscal Year of the Obligated Group.

Immediate Termination Date means the date (if any) on which the Liquidity Facility Provider's obligation to advance funds or purchase Bonds under a Liquidity Facility terminates or is suspended immediately in accordance with its terms.

Income Available for Debt Service means, unless the context provides otherwise, as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense, as determined in accordance with GAAP and as shown on the Financial Statements; provided, that no determination thereof shall take into account:

- (a) any revenue or expense of a Person which is not a Member of the Obligated Group;
- (b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;
- (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;
- (d) any gain or loss resulting from the extinguishment of Indebtedness;
- (e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;
- (f) any gain or loss resulting from any discontinued operations;
- (g) any gain or loss resulting from pension terminations, settlements or curtailments;
- (h) any unusual charges for employee severance;
- (i) adjustments to the value of assets or liabilities resulting from changes in GAAP;
- (j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value;
- (k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, including, without limitation, any Financial Products Agreement;
- (l) any Financial Product Extraordinary Payments, Financial Product Extraordinary Receipts, or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Products Agreement;

- (m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets;
 - (n) changes in the share value of investment pools held or managed by Stanford University;
- or
- (o) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

Indebtedness means any Guaranty (other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) and any obligation of any Obligated Group Member (1) for repayment of borrowed money, (2) with respect to finance leases or (3) under installment sale agreements; provided, however, that if more than one Obligated Group Member shall have incurred or assumed a Guaranty of a Person other than an Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture, such Guaranty or obligation shall be included only one time. Financial Products Agreements and physician income guaranties shall not constitute Indebtedness.

Indenture means the Indenture, dated as of May 1, 2012, between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Consultant means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such firm is retained), (3) is not connected with any Obligated Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (4) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Obligated Group or facilities of the type or types operated by the Obligated Group and having the skill and experience necessary to render the particular opinion or report required by the provision hereof in which such requirement appears.

Index means any of (a) One Month LIBOR, (b) Three Month LIBOR, (c) the S&P Weekly High Grade Index, (d) the SIFMA Index, (e) the Consumer Price Index, or (f) any other index chosen by the Corporation in consultation with the Remarketing Agent.

Index Floating Rate means a variable interest rate established in accordance with the provisions of the Indenture.

Index Floating Rate Period means each period during which an Index Floating Rate is in effect for the Bonds.

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

Initial Windows Spread means (i) as of the Issue Date the Initial Windows Spread set forth on the inside cover of the Official Statement, and (ii) with respect to any Conversion of the Bonds to a Windows Interest Rate Period subsequent to the Issue Date, the spread determined by the Remarketing Agent on or prior to the applicable Conversion Date.

Insurance Consultant means a Person or firm (which may be an insurance broker or agent of an Obligated Group Member) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Group Member (other than the agreement pursuant to which such Person or firm is retained) and (3) is not connected with any Obligated Group Member as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions, and designated by the Obligated Group Representative, qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

Interest Account means the account by that name in the Revenue Fund established pursuant to the provisions of the Indenture.

Interest Accrual Date means:

for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period (whether or not a Business Day);

(1) for any Daily Interest Rate Period or any Two-Day Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date;

(2) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date, during that Long-Term Interest Rate Period;

(3) for each Commercial Paper Period within a Short-Term Interest Rate Period, the first day thereof;

(4) for each Windows Interest Rate Period, the first day thereof and, thereafter, the first Thursday of each calendar month during such Windows Interest Rate Period; and

(5) for each Index Floating Rate Period, the first day thereof and, thereafter, the first Business Day of each calendar month.

Interest Payment Date means:

for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day;

(1) for any Daily Interest Rate Period or any Two-Day Interest Rate Period, the first Business Day of each calendar month;

(2) for any Long-Term Interest Rate Period, each February 15 and August 15;

(3) for any Commercial Paper Period, the day next succeeding the last day of that Commercial Paper Period;

(4) for any Windows Interest Rate Period, the first Thursday of each calendar month, or if the first Thursday is not a Business Day, the next succeeding Business Day;

(5) for any Index Floating Rate Period, the first Business Day of each calendar month;

- (6) each Conversion Date;
- (7) for Liquidity Facility Bonds, each date specified in the Liquidity Facility relating to such Liquidity Facility Bonds; and
- (8) the Maturity Date.

Interest Rate Period means a Weekly Interest Rate Period, a Short-Term Interest Rate Period, a Daily Interest Rate Period, a Two-Day Interest Rate Period, a Long-Term Interest Rate Period, a Windows Interest Rate Period or an Index Floating Rate Period.

Investment Securities means any of the following:

- (1) United States Government Obligations;
- (2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America: (a) Export-Import Bank; (b) Rural Economic Community Development Administration; (c) U.S. Maritime Administration; (d) Small Business Administration; (e) U.S. Department of Housing & Urban Development (PHAs); (f) Federal Housing Administration; and (g) Federal Financing Bank;
- (3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (a) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); (b) obligations of the Resolution Funding Corporation (REFCORP); and (c) senior debt obligations of the Federal Home Loan Bank System;
- (4) U.S. dollar denominated deposit accounts, including trust funds, trust account, time deposits, overnight bank deposits, interest bearing deposits, interest bearing money market accounts, certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the Corporation), federal fund and bankers' acceptances with domestic commercial banks (including the Trustee or any of its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than three hundred sixty (360) calendar days after the date of purchase;
- (5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" or "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;
- (6) Investments in money market funds rated "AAAm" or "AAM-G" or better by S&P or having a rating in the highest investment category granted thereby from Moody's, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from money market funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such money market funds, and (iii) services performed for such money market funds and pursuant to the Indenture may at times duplicate those provided to such money market funds by the Trustee or an affiliate of the Trustee;
- (7) Pre-refunded municipal obligations defined as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such

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

(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; and

(9) Investment agreements with any financial institution that at the time of investment has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

Irrevocable Deposit means an irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be in an amount sufficient to pay all or a portion of the principal of, premium, if any, and interest on, any such Indebtedness (which would otherwise be considered Outstanding) as the same shall become due. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

Issue Date means the date of original delivery of the Bonds.

Lease means that certain Ground Lease (Hospital Campus) and that certain Ground Lease (Hoover Campus), each made and entered into as of February 1, 2012, between Stanford University, as lessor, and the Corporation, as lessee, which supersede the 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.

LIBOR Percentage means the minimum percentage of the One Month LIBOR Rate that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, including Gross Revenues, of an Obligated Group Member (i) which secures any Indebtedness or any other obligation of such Obligated Group Member or (ii) which secures any obligation of any Person other than an Obligated Group Member, and excluding liens applicable to Property in which an Obligated Group Member has only a leasehold interest, unless the lien secures Indebtedness of that Obligated Group Member.

Liquidity Facility means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility issued by a commercial bank or financial institution delivered or made available to, and accepted by, the Trustee in accordance with the provisions of the Loan Agreement or, in the event of the delivery or availability of any Alternate Liquidity Facility, such Alternate Liquidity Facility.

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

Liquidity Facility Bonds means Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Reimbursement Agreement or Liquidity Facility.

Liquidity Facility Provider means, upon the effectiveness of any Liquidity Facility or Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions or other entity that is then a party to such Alternate Liquidity Facility.

Liquidity Facility Rate means the rate per annum, if any, specified in a Reimbursement Agreement or Liquidity Facility as applicable to Liquidity Facility Bonds, but in no event shall such Liquidity Facility Rate exceed the Maximum Lawful Rate.

Loan Agreement means that certain Loan Agreement, dated as of May 1, 2012, 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 provisions of the Loan Agreement.

Long-Term Conversion Date means the date on which the Bonds begin to bear interest at a Long-Term Interest Rate pursuant to the provisions of the provisions of the Indenture and shall include the Fixed Rate Conversion Date for the Bonds.

Long-Term Indebtedness means Indebtedness other than Short-Term Indebtedness.

Long-Term Interest Rate means an interest rate on the Bonds established in accordance with the provisions of the Indenture.

Long-Term Interest Rate Period means each period during which a Long-Term Interest Rate is in effect for the Bonds.

Mandatory Credit/Liquidity Tender means the mandatory tender of the Bonds pursuant to the provisions of the Indenture upon receipt by the Trustee of written notice from the Credit Facility Provider or the Liquidity Facility Provider, as the case may be, that an event with respect to the Credit Facility or Liquidity Facility has occurred which requires or gives the Credit Facility Provider or Liquidity Facility Provider the option to terminate the Credit Facility or Liquidity Facility or cause a mandatory tender of the Bonds upon the designated notice. For avoidance of doubt, Mandatory Credit/Liquidity Tender shall not include circumstances, if any, where the Liquidity Facility Provider may suspend or terminate its obligations to purchase Bonds without notice, in which case there will be no mandatory tender.

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

Mandatory Tender Window means, during a Windows Interest Rate Period, (i) two hundred ten (210) days, or (ii) such other number of days specified by the Remarketing Agent, with the consent of the Corporation, in a written notice to the Authority, the Trustee and the Credit Facility Provider (if any). Any change in the Mandatory Tender Window for the Bonds shall become effective only on (i) a Windows Mandatory Tender Date or (ii) any other mandatory Purchase Date that occurs pursuant to the provisions of the Indenture during a Windows Interest Rate Period.

Master Indenture means that certain Amended and Restated Master Indenture of Trust, dated as of June 1, 2011, which took effect on the Amended Master Indenture Effective Date, between Stanford Hospital and Clinics and the Master Trustee, which amended and restated the Original Master Indenture, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Master Trustee means The Bank of New York Mellon Trust Company, N.A., a national banking association organized under the laws of the United States of America, and, subject to the limitations contained in the Master Indenture, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created under the Master Indenture.

Maturity Date means the maturity date for the Bonds set forth on the inside cover of the Official Statement.

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

(a) with respect to a Guaranty, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were a Obligated Group Member) guaranteed by the Obligated Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Obligated Group Member (calculated as if such Person were a Obligated Group Member), over the Maximum Annual Debt Service of such Person (calculated as if such Person were a Obligated Group Member) (such ratio being hereinafter referred to as the "Ratio"). If the Ratio is greater than 2.00, no Annual Debt Service on the indebtedness guaranteed shall be included in the calculation of Annual Debt Service. If the Ratio is equal to or less than 2.0, twenty percent (20%) of Annual Debt Service on the indebtedness guaranteed shall be included in the calculation of Annual Debt Service; provided however, that if the indebtedness guaranteed shall be in default, one hundred percent (100%) of such indebtedness shall be included in the calculation of Annual Debt Service until such time as either the default is cured, the indebtedness guaranteed is repaid or the Guaranty is terminated.

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments or Financial Product Receipts are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for such Financial Product Payments or Financial Product Receipts) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Financial Products Agreement) was Outstanding during the twelve (12) calendar months immediately

preceding the date of calculation, an average of the interest rates per annum which were in effect for such period, and (ii) if such Long-Term Indebtedness (or Financial Products Agreement) was not Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, at the election of the Obligated Group Representative, either (x) an average of the SIFMA Swap Index during the twelve (12) calendar months immediately preceding the date of calculation or (y) an average of the interest rates per annum which would have been in effect for any twelve (12) consecutive calendar months during the eighteen (18) calendar months immediately preceding the date of calculation, as specified in a Certificate of the Obligated Group Representative or, at the sole option of the Obligated Group Representative, such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative.

(c) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then-current Fiscal Year from sources other than proceeds of such Long-Term Indebtedness held by a trustee or escrow agent for such purpose (excluding any funds held on deposit in a debt service reserve fund established in connection with such Long-Term Indebtedness);

(d) with respect to Balloon Indebtedness, such Balloon Indebtedness shall be treated, at the sole option of the Obligated Group Representative, as Long-Term Indebtedness bearing interest at an interest rate equal to either (i) a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in *The Bond Buyer* prior to the date of calculation or (ii) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Obligated Group Representative, and (x) with substantially level debt service over a period of up to thirty (30) years (which period shall be designated by the Obligated Group Representative) from the date of calculation, or (y) with the debt service being interest only for a designated period of years and then substantially level debt service over a designated period of years (each of which periods shall be designated by the Obligated Group Representative), provided that such periods shall not aggregate in excess of thirty (30) years (by way of example, Annual Debt Service on Balloon Indebtedness could be designated by the Obligated Group Representative to be treated as interest only for twenty-five (25) years and as level payments of principal and interest for the next five (5) years); and

(e) debt service on Commercial Paper Indebtedness shall be treated in the same manner as interest on Long-Term Indebtedness payable pursuant to a variable interest rate formula as provided in clause (b) above.

Maximum Interest Rate means (a) with respect to Bonds other than Liquidity Facility Bonds, the lesser of twelve percent (12%) per annum and the Maximum Lawful Rate, and (b) with respect to Liquidity Facility Bonds, the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on the Bonds.

Maximum Lawful Rate means the maximum rate of interest on the relevant obligation permitted by applicable law.

Member means the Corporation and each other Person that is then obligated as a Member under and as defined in the Master Indenture.

Merger Transaction shall have the meaning specified in the provisions of the Master Indenture and described under the caption "Master Indenture - Obligated Group Covenants - Merger, Consolidation, Sale or Conveyance."

Minimum Authorized Denominations means with respect to any (a) Long-Term Interest Rate Period or Index Floating Rate Period, \$5,000 and any integral multiple thereof; and (b) Short-Term Interest Rate Period, Weekly Interest Rate Period, Daily Interest Rate Period, Two-Day Interest Rate Period or Windows Interest Rate Period, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

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.

Nonrecourse Indebtedness means any Indebtedness which is not a general obligation and which is secured by a Lien on Property, Plant and Equipment acquired or constructed with the proceeds of such Indebtedness, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien, with no recourse, directly or indirectly, to any other Property of any Obligated Group Member or to any Obligated Group Member.

Obligated Group means 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 Member means the Corporation and each other Person that is then obligated as a Member under and as defined in the Master Indenture.

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

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

Obligation No. 32 means the obligation issued under the Master Indenture and Supplement No. 32.

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

Official Statement means, the Official Statement, dated May 22, 2012, relating to, and used in connection with the sale of, the Bonds, including all appendices thereto.

One Month LIBOR means the rate for deposits in United States Dollars with a one-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for United States Dollar deposits) as of 11:00 a.m. (London time), on the date that the interest rate for the Bonds shall be determined in accordance with the Indenture, except that, if such rate is not available on such date, One Month LIBOR means a rate determined on the basis of the rates at which deposits in United States

Dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m. (London time) on such date, to prime banks in the London interbank market by three Reference Banks. The Calculation Agent shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, One Month LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, One Month LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m. (New York City time), on the date that the interest rate for the Bonds shall be determined in accordance with the Indenture for loans in United States Dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity. If none of the banks in New York City selected by the Calculation Agent is then quoting rates for such loans, then One Month LIBOR will mean One Month LIBOR then in effect in the immediately preceding period commencing on the Interest Accrual Date and ending on the Interest Payment Date.

Opinion of Bond Counsel means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

Opinion of Counsel means, for purposes of the Master Indenture, a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Obligated Group Representative.

Opinion of Counsel means, for purposes of the Indenture and Loan Agreement, a written opinion of counsel (who may be counsel for the Authority, the Trustee or the Corporation), selected by the Corporation and acceptable to the Authority.

Original Master Indenture means that certain Master Indenture of Trust, dated as of December 1, 1990, as supplemented and amended to the Amended Master Indenture Effective Date, between Stanford University Hospital, currently known as Stanford Hospital and Clinics, and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as master trustee.

Outstanding, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to 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 discharge 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 authenticated and delivered by the Trustee pursuant to 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 or Obligations, means, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms hereof, including, without limitation, Obligations securing Related Bonds which have been defeased pursuant to their terms, (2) Obligations in lieu of which other Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (3) any Obligation held by any Obligated Group Member, (4) Indebtedness

deemed paid and no longer outstanding pursuant to the terms thereof, and (5) Indebtedness for which there has been an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of calculating compliance with the various financial covenants contained 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 which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

Par Call Date means, for Bonds in an Index Floating Rate Period of one year or longer (a) the date six months prior to the end of the Index Floating Rate Period or (b) such other date determined as set forth in the Indenture.

Parity Financial Product Extraordinary Payments means Existing Parity Financial Product Extraordinary Payments and Financial Product Extraordinary Payments that: (i) are with respect to a Financial Products Agreement secured or evidenced by an Obligation; and (ii) have been specified to be payable on a parity with Financial Product Payments in the Related Supplement authorizing the issuance of such Obligation.

Participant means a member of or participant in the Securities Depository.

Participating Underwriter means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Permitted Liens means and includes:

(a) Any judgment lien or notice of pending action against any Obligated Group Member so long as the judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days or for which a bond has been furnished; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the Value thereof; and (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof;

- (c) Any Lien in favor of the Master Trustee securing all Outstanding Obligations equally and ratably;
- (d) Liens arising by reason of good faith deposits with any Obligated Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Group Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;
- (e) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;
- (f) Any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;
- (g) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;
- (h) Liens on moneys deposited by patients or others with any Obligated Group Member as security for or as prepayment for the cost of patient care;
- (i) Liens on Property received by any Obligated Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;
- (j) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Member of the Obligated Group under federal or State of California statutes;
- (k) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that the aggregate principal amount of such new Indebtedness does not exceed the aggregate principal amount of such refinanced Indebtedness;
- (l) Liens granted by an Obligated Group Member to another Obligated Group Member;
- (m) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions hereof;
- (n) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;
- (o) Liens on the Obligated Group Members' accounts receivable, provided that at the time of creation of such Lien, the Indebtedness secured by any such Lien shall not exceed thirty percent (30%) of the Obligated Group Members' net accounts receivable as shown on the most recent Financial Statements available at the time of incurrence of the Indebtedness to be secured by such Lien, and provided further

that no more than thirty percent (30%) of the Obligated Group Members' net accounts receivable can be utilized for such securitization;

(p) Liens on revenues constituting rentals in connection with any other Lien permitted under the Master Indenture on the Property from which such rentals are derived;

(q) The lease or license of the use of a part of an Obligated Group Member's facilities for use in performing professional or other services necessary for the proper and economical operation of such facilities in accordance with customary business practices in the industry;

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

(s) Liens on real property constituting Property not necessary for the delivery of patient care by any Obligated Group Member;

(t) Liens securing the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title agreement;

(u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Obligated Group Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;

(v) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Obligated Group Member so long as the lease arrangement is in the ordinary course of business of such Obligated Group Member;

(w) Deposits of Property by any Obligated Group Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;

(x) Deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease (other than a lease that is treated as Indebtedness under GAAP), and other similar obligations incurred in the ordinary course of business of an Obligated Group Member;

(y) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of an Obligated Group Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(z) Present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Obligated Group Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used;

(aa) Liens junior to Liens in favor of the Master Trustee;

(bb) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Obligated Group Member under a Financial Products Agreement;

(cc) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease; and

(dd) Any other Lien on Property, provided that at the time of creation of such Lien the Value of all Property encumbered by all Liens permitted as described in this clause (dd) does not exceed twenty-five percent (25%) of the total Value of all Property of the Obligated Group Members as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year available at the time of creation of such Lien.

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

Prevailing Rating means (a) "AAA/Aaa/AAA" if the Bonds shall have at least two (or, if the Bonds are rated by only one Rating Agency, any one) of the following ratings: AAA or better by S&P, Aaa or better by Moody's or AAA or better by Fitch, (b) if not AAA/Aaa/AAA, "AA/Aa/AA" if the Bonds shall have at least two (or, if the Bonds are rated by only one Rating Agency, any one) of the following ratings: AA- or better by S&P, Aa3 or better by Moody's or AA- or better by Fitch, (c) if not AAA/Aaa/AAA or AA/Aa/AA, "A/A/A" if the Bonds shall have at least two (or, if the Bonds are rated by only one Rating Agency, any one) of the following ratings: A- or better by S&P, A3 or better by Moody's or A- or better by Fitch, (d) if not AAA/Aaa/AAA, AA/Aa/AA or A/A/A, then "BBB/Baa" if the Bonds shall have at least two (or, if the Bonds are rated by only one Rating Agency, any one) of the following ratings: BBB- or better by S&P, Baa3 or better by Moody's or BBB- or better by Fitch, and (e) if not AAA/Aaa/AAA, AA/Aa/AA, A/A/A or BBB/Baa/BBB, then "Below BBB/Baa/BBB", whether or not the Bonds are rated by any Rating Agency. For purposes of this definition, S&P's rating categories of "AAA," "AA-," "A-" and "BBB-", Moody's rating categories of "Aaa," "Aa3," "A3" and "Baa3" and Fitch's ratings categories of "AAA," "AA-," "A-" and "BBB-" shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such rating agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories.

Principal Account means the account by that name in the Revenue Fund established pursuant to the provisions of the Indenture.

Principal Office means solely with respect to (i) the surrender of Bonds for payment, including payment of Purchase Price, transfer, or exchange and (ii) the delivery of notices relating to tender of Bonds pursuant to the provisions of the Indenture, such office as is designated by the Trustee, and for all other purposes, the corporate trust office of the Trustee located at One California Street, 10th Floor, San Francisco, California 94111, Attention: Corporate Trust Services or such other or additional offices as may be designated by the Trustee from time to time.

Project means the financing of the acquisition, construction, equipping and improvement of the health care facilities owned and operated by the Corporation, as more fully described in an exhibit attached to the Indenture.

Project Fund means the fund so designated and established pursuant to the provisions of the Indenture.

Property means any and all rights, titles and interests in and to any and all assets of any Obligated Group Member, whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of any Obligated Group Member which is considered property, plant and equipment of such Obligated Group Member under GAAP.

Purchase Date means the date Bonds are to be purchased pursuant to the provisions of the Indenture.

Purchase Price of any Purchased Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date; provided, however, that (a) if the Purchase Date for any Purchased Bond is an Interest Payment Date, the Purchase Price thereof shall be the principal amount thereof, and interest on such Bond shall be paid to the Holder of such Bond pursuant to the Indenture and (b) in the case of a purchase on the first day of an Interest Rate Period which is preceded by a Long-Term Interest Rate Period and which commences prior to the day originally established as the last day of such preceding Long-Term Interest Rate Period, "Purchase Price" of any Purchased Bonds means the optional redemption price which would have been applicable to such Bond if the preceding Long-Term Interest Rate Period had continued to the day originally established as its last day, plus accrued interest, if any.

Purchased Bonds means Bonds to be purchased pursuant to the provisions of the Indenture.

Qualified Provider means any financial institution or insurance company or corporation which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary) are rated in one of the three highest rating categories of a Rating Agency (without regard to any gradation or such rating category) at the time of the execution and delivery of the Financial Products Agreement.

Rating Agency means, for purposes of the Indenture, as and to the extent applicable, any nationally recognized securities rating service, including Fitch, Moody's or S&P, then maintain a rating on the Bonds at the request, or upon application, of the Corporation.

Rating Agency means, for purposes of the Master Indenture, Fitch, Moody's or S&P and any other national rating agency then rating Obligations or Related Bonds.

Rating Category means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

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

Record Date means with respect to each Interest Payment Date the first day (whether or not a Business Day) of the calendar month during which such Interest Payment Date occurs.

Record Date means, (i) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period, Daily Interest Rate Period, Two-Day Interest Rate Period, Short-Term Interest Rate Period, Index Floating Rate Period or Windows Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (ii) with respect to any Interest Payment Date in respect to any

Long-Term Interest Rate Period, the first day (whether or not a Business Day) of the calendar month in which such Interest Payment Date occurs.

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

Redemption Price means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Reference Banks means, with respect to an Index, any of the four largest United States banks with an office in London, based upon consolidated total asset size, as listed by the Federal Reserve in its most current statistical release on its website with respect thereto.

Reimbursement Agreement means, if a Credit Facility, an Alternate Credit Facility, a Liquidity Facility and/or an Alternate Liquidity Facility is issued, any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement relating to the Credit Facility, Alternate Credit Facility, Liquidity Facility and/or Alternate Liquidity Facility.

Reimbursement Obligations means all obligations owed to any Credit Facility Provider and/or any Liquidity Facility Provider with respect to draws under the related Credit Facility and/or Liquidity Facility, including interest thereon as set forth in the applicable Reimbursement Agreement.

Related Bond Indenture means any indenture, bond resolution, trust agreement, or other comparable instrument pursuant to which a series of Related Bonds are issued.

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

Related Bonds means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to an Obligated Group Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

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

Remarketing Agent means any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with the Indenture. "Principal Office" of the Remarketing Agent means the address for the Remarketing Agent designated in writing to the Trustee and the Corporation.

Remarketing Agreement means each such agreement between the Corporation and a Remarketing Agent, in each case as from time to time in effect.

Remarketing Proceeds Account means the account by that name within the Bond Purchase Fund established pursuant to the provisions of the Indenture.

Remarketing Window has the meaning given to such term in the Indenture and described under below under the caption "Indenture - Optional Tender Provisions - Windows Interest Rate Period."

Required Payment means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, Financial Product Payments, Financial Product Extraordinary Payments, required to be made by any Obligated Group Member under the Master Indenture, any Related Supplement or any Obligation.

Required Stated Amount means with respect to a Credit Facility or a Liquidity Facility, at any time of calculation, an amount equal to the aggregate principal amount of all Bonds then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Interest Rate) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating the Bonds as necessary to obtain (or maintain) a specified long-term and/or short-term rating of the Bonds.

Reset Date means, with respect to any Index Floating Rate Period, the Conversion Date and, thereafter, every Wednesday or, if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

Responsible Officer means, with respect to the Master Trustee, the president, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any senior associate, any associate or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject.

Responsible Officer means, with respect to the Trustee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any senior associate, any associate or any other officer of the Trustee within the Principal Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Principal Office because of such person's knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Indenture.

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.

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

Revenues means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 29, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and 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 Additional Payments or Administrative Fees and Expenses or any moneys required to be deposited to, or on deposit in, the Rebate Fund.

Revenues means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 32, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and 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 Additional Payments or Administrative Fees and Expenses or any moneys required to be deposited to, or on deposit in, the Rebate Fund or the Bond Purchase Fund.

Rule means 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.

S&P means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, which is a subsidiary of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and 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.

S&P Weekly High Grade Index (formerly the J.J. Kenny Index) means the index of such name maintained by Standard & Poor's Securities Evaluations Inc. for weekly obligations, as published on the Reset Date.

Securities Depository means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture.

Self-Liquidity Arrangement means the undertaking by the Corporation of the obligation to purchase Bonds tendered for purchase or subject to mandatory tender for purchase in accordance with the provisions set forth in the Loan Agreement.

Short-Term Indebtedness means all (i) Indebtedness having an original maturity less than or equal to one year and not renewable at the option of an Obligated Group Member for a term greater than one year from the date of original incurrence or issuance or (ii) Indebtedness with a maturity or renewable at the option of a Obligated Group Member with a term greater than one year, if by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness under the Master Indenture and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under the Master Indenture.

Short-Term Interest Rate Period means each period, comprised of Commercial Paper Periods, during which Commercial Paper Rates are in effect.

SIFMA means the Securities Industry & Financial Markets Association.

SIFMA Index means, for purposes of the Indenture, 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 SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA and effective from such date, or if such index is no longer available "SIFMA Index" shall refer to an index recommended by the Remarketing Agent and acceptable to the Corporation.

SIFMA Percentage means the minimum percentage of the SIFMA Index that would be necessary (as determined by the Remarketing Agent based on the examination of tax-exempt obligations

comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to allow the Remarketing Agent to sell the Bonds on the date and at the time of such determination at their principal amount (without regard to accrued interest) if the Bonds were being sold on such date.

SIFMA Swap Index means, for purposes of the Master Indenture, 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 SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available SIFMA Swap Index shall refer to an index selected by the Obligated Group Representative, with the advice of an investment banking or financial services firm knowledgeable in health care matters.

Sinking Fund Installment means the amount required to be paid by the Authority on any single date for the retirement of Bonds.

Sinking Fund Installment Date means each date specified in the Indenture for the payment of a Sinking Fund Installment.

Special Record Date means the date established by the Trustee as a record date for the payment of defaulted interest on the Bonds.

Stanford University means The Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California, and its successors and assigns.

State means the State of California.

Subordinate Financial Product Extraordinary Payment means any Financial Product Extraordinary Payment other than a Parity Financial Product Extraordinary Payment.

Subordinated Indebtedness means Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Obligated Group Members under the Master Indenture.

Supplement No. 32 means that certain Supplemental Master Indenture for Obligation No. 32, dated as of May 1, 2012, between the Corporation and the Master Trustee, as originally executed and as amended or supplemented from time to time in accordance with the terms of the Master Indenture.

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.

Surviving Entity has the meaning set forth in the provisions of the Master Indenture and described under the caption "Master Indenture - Obligated Group Covenants - "Merger, Consolidation, Sale or Conveyance."

Tax Agreement means the Tax Certificate and Agreement, delivered by the Authority and the Corporation at the time of issuance and delivery of the Bonds, the Fixed Rate Bonds and the Other Variable Rate Bonds as such term is defined in the front portion of the Official Statement, as the same may be amended or supplemented in accordance with its terms.

Three Month LIBOR means the rate for deposits in United States dollars with a three-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for United States dollar deposits) as of 11:00 a.m. (London time), on the date that the interest rate for the Bonds shall be determined in accordance with the Indenture, except that, if such rate is not available on such date, Three Month LIBOR means a rate determined on the basis of the rates at which deposits in United States Dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m. (London time), on such date, to prime banks in the London interbank market by three Reference Banks. The Calculation Agent shall request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, Three Month LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, Three Month LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m. (New York City time), on the date that the interest rate for the Bonds shall be determined in accordance with the Indenture for loans in United States Dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If none of the banks in New York City selected by the Calculation Agent is then quoting rates for such loans, then Three Month LIBOR will mean Three Month LIBOR then in effect in the immediately preceding period commencing on the Interest Accrual Date and ending on the Interest Payment Date.

Total Revenues means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, capitation or premium revenue and other revenue) and nonoperating gains (losses), as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year.

Transaction Test means with respect to any specified transaction, that: (i) no Event of Default or Default then exists; and (ii) following such transaction, the Obligated Group could satisfy the conditions for the issuance of \$1.00 of additional Long-Term Indebtedness set forth in the provisions of the Master Indenture described under the caption "Master Indenture - Obligated Group Covenants - Limitations on Indebtedness - Long-Term Indebtedness," assuming that such transaction occurred at the start of the most recent Fiscal Year and taking into account any other transaction entered into within the then current Fiscal Year.

Trustee means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or any successor thereto, as Trustee under the Indenture, as provided in the Indenture.

Two-Day Interest Rate means a variable interest rate borne by the Bonds and established in accordance with the provisions of the Indenture.

Two-Day Interest Rate Period means each period during which a Two-Day Interest Rate is in effect.

2012 Series A Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2012 Series A.

2012 Series B Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics), 2012 Series B.

UCC means the Uniform Commercial Code of the State of California, as amended from time to time.

Undelivered Bonds means any Bond which constitutes an Undelivered Bond under the provisions of the Indenture described below under the caption "Indenture - General Provisions Relating to Tenders - Irrevocable Notice Deemed to be Tender of Bonds; Undelivered Bonds."

United States 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, 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;

(2) certificates or other instruments that evidence direct ownership of future principal and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and

(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 by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

U.S. Government Securities Business Day means any day except a Saturday, Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

Value, when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Obligated Group Representative, at either its Fair Market Value or its Book Value.

Weekly Interest Rate means a variable interest rate borne by the Bonds and established in accordance with the provisions of the Indenture.

Weekly Interest Rate Period means each period during which a Weekly Interest Rate is in effect.

Windows Calculation Agent means the Trustee or an agent appointed by the Trustee pursuant to the provisions of the Indenture to calculate the Windows Interest Rate.

Windows Interest Rate means a variable interest rate for the Bonds established in accordance with the provisions of the Indenture.

Windows Interest Rate Period means each period during which a Windows Interest Rate is in effect for the Bonds.

Windows Mandatory Tender Date has the meaning given to such term in the Indenture and described under the caption "Indenture - Mandatory Tender Provisions - Mandatory Tender During Windows Interest Rate Period."

Windows Optional Tender Date has the meaning given to such term in the Indenture and described under the caption "Indenture - Optional Tender Provisions - Windows Interest Rate Period."

Windows Optional Tender Notice has the meaning given to such term in the Indenture and described under the caption "Indenture - Optional Tender Provisions - Windows Interest Rate Period."

Windows Spread means, during a Windows Interest Rate Period, (i) the Initial Windows Spread, or (ii) a revised spread determined by the Remarketing Agent pursuant to the provisions of the Indenture and described under the caption "Indenture - Windows Interest Rate and Windows Interest Rate Period - Determination of Windows Interest Rate."

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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. The Corporation is currently the only Member of the Obligated Group.

Authorization and Issuance of Obligations

Authorization of Obligations. Pursuant to the provisions of the Master Indenture, each Obligated Group Member authorizes the issuance from time to time of Obligations or Series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement.

Issuance of Obligations. From time to time when authorized by the Master Indenture and subject to the terms, limitations and conditions established in the Master Indenture or in a Related Supplement, the Obligated Group Representative may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement. The Obligation or the Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement. The Corporation has been designated as the Obligated Group Representative pursuant to the provisions of the Master Indenture.

Obligated Group Covenants

Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly, all Required Payments at the place, on the dates and in the manner provided in the Master Indenture, or in any Related Supplement or Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Obligations under the Master Indenture. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Obligation.

Maintenance of Properties; Payment of Indebtedness. Each Obligated Group Member covenants to:

(a) maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Obligated Group Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof;

(b) maintain and operate its Property, Plant and Equipment in reasonably good working condition, and from time to time make or cause to be made all needful and proper replacements, repairs and improvements so that the operations of such Obligated Group Member will not be materially impaired;

(c) pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become Liens upon the Property, Plant and Equipment, and will make such payments or

cause such payments to be made in due time to prevent any delinquency thereon or any forfeiture or sale of any part of the Property, Plant and Equipment, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Obligated Group Member shall be required to pay any tax, assessment, rate or charge as long as it shall in good faith contest the validity thereof as set out in the definition of Permitted Liens;

(d) pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than obligations, Indebtedness, demands or claims (exclusive of the Obligations issued and Outstanding under the Master Indenture) the validity, amount or collectibility of which is being contested in good faith;

(e) at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Property;

(f) use its best efforts to maintain (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) all permits, licenses and other governmental approvals necessary for the operation of its Property; and

(g) take no action or suffer any action to be taken by others which would result in the interest on any Related Bond issued as a tax exempt obligation becoming subject to federal income taxation.

Nothing in the Master Indenture shall be construed to require an Obligated Group Member to maintain any permit, license or other governmental approval, or to continue to operate or maintain any Property, Plant or Equipment, if, in the reasonable good faith judgment of the Obligated Group Member, such permit, license, governmental approval or Property, Plant or Equipment is, or within the next succeeding 12 calendar months is reasonably expected to become, inadequate, obsolete, unsuitable, undesirable or unnecessary for the business of the Obligated Group and failure to maintain or operate such permit, license, governmental approval or Property, Plant or Equipment will not materially adversely impair the operation of the Obligated Group.

Insurance

(a) Each Obligated Group Member, respectively, covenants and agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles and alternative risk management programs and self-insurance, and against such risks as are customarily insured against by other health care institutions in connection with the ownership and operation of health facilities of similar character and size in the State of California.

(b) The Obligated Group Representative shall employ an Insurance Consultant at least once every two (2) years to review the insurance requirements (including alternative risk management programs and self-insurance) of the Members. If the Insurance Consultant makes recommendations for a change in the insurance coverage required by the Master Indenture, the Obligated Group Members shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are not in the best interests of the Obligated Group Members or that such coverage is not obtainable at commercially reasonable rates. In lieu of maintaining insurance coverage which the Governing Body of the Obligated Group Representative deems necessary, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of the Obligated Group Representative determines to be reasonable and which shall not have a material adverse impact on

reimbursement from third-party payers, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant.

(c) The Obligated Group Members shall have the right, without giving rise to an Event of Default under the Master Indenture solely on such account, (1) to maintain insurance coverage below that required by the provisions of the Master Indenture described in subsection (a) above, if the Obligated Group Representative furnishes to the Master Trustee a certificate of the Insurance Consultant that the insurance so provided accords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (2) to adopt alternative risk management and self-insurance programs in accordance with the provisions of the Master Indenture described in subsection (b) above.

Against Encumbrances. Each Obligated Group Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, except for Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an Obligated Group Member and is assumed by any Obligated Group Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

Limitations on Indebtedness. Each Obligated Group Member covenants that it will not incur any Indebtedness except in accordance with the provisions of the Master Indenture described below:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(1) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.2:1.0;

(2) (i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available was not less than 1.2:1.0 and (ii) the Debt Service Coverage Ratio for each of the two (2) Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the construction, acquisition or equipping of Property to be financed by such Indebtedness (or, if the proceeds of such Indebtedness are not to be used for the construction, acquisition or equipping of Property, each of the two (2) Fiscal Years beginning with the Fiscal Year commencing after the incurrence of such Indebtedness) with respect to all Long-Term Indebtedness projected to be Outstanding (including the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected by the Obligated Group Representative to be not less than 1.25:1.0. Notwithstanding the foregoing, if the Master Trustee receives a report of an Independent Consultant to the effect that Industry Restrictions prevent the Obligated Group Members from generating the required levels of Income Available for Debt Service sufficient to result in a Debt Service Coverage Ratio of not less than 1.25:1.0,

the 1.25:1.0 ratio requirement described in this subsection shall be reduced to a ratio of not less than 1.0:1.0; or

(3) any other Long-Term Indebtedness (including, without limitation, Commercial Paper Indebtedness, treating the amount of Commercial Paper Indebtedness being incurred or Outstanding, as the case may be, as the principal amount for purposes of any calculations made to demonstrate compliance with the provisions of the Master Indenture described under this caption) provided that the aggregate principal amount of such Long-Term Indebtedness, together with any other Long-Term Indebtedness incurred pursuant to the provisions of the Master Indenture described in this clause (3) and then Outstanding, does not, as of the date of incurrence, exceed 10% of Total Revenues.

(b) Completion Indebtedness without limitation;

(c) Short-Term Indebtedness provided that either (i) the provisions of the Master Indenture described in subsection (a) above are satisfied calculated as if such Short-Term Indebtedness was Long-Term Indebtedness or (ii) the provisions of the Master Indenture described below are satisfied, in either case, as evidenced by an Officer's Certificate delivered to the Master Trustee:

(1) the total amount of such Short-Term Indebtedness shall not exceed 20% of Total Revenues; and

(2) the total amount of such Short-Term Indebtedness and Indebtedness incurred pursuant to the provision of the Master Indenture described below in clause (g) then Outstanding shall not exceed 25% of Total Revenues; and

(3) in every Fiscal Year, there shall be at least a consecutive 20 day period when the balances of such Short-Term Indebtedness is reduced to an amount which shall not exceed 5% of Total Revenues.

(d) Nonrecourse Indebtedness without limitation.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and if prior to issuance or incurrence thereof there is delivered to the Master Trustee a resolution of the Governing Body of the Obligated Group Representative determining that such refunding is in the best interests of the Obligated Group, which resolution shall also state the reasons for such determination.

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions of the Master Indenture described in subsection (c) above, does not, as of the date of incurrence, exceed 25% of Total Revenues.

(h) Reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities which provide credit support and/or liquidity for Indebtedness.

Gross Revenue Fund

(a) Each Obligated Group Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in one or more deposit accounts designated as the "Gross Revenue Fund" which the Obligated Group Representative established and agreed to maintain pursuant to the provisions of the Original Master Indenture, subject to the provisions of the Master Indenture described in subsection (b) below, at such financial institution or institutions as the Obligated Group Representative shall from time to time designate, in writing, for such purpose (each, a "Depository Bank" and in the Master Indenture collectively called the "Depository Bank") and which has entered into an Account Control Agreement with the Obligated Group Members and the Master Trustee. As security for the payment of Required Payments and the performance by each Obligated Group Member of its other obligations under the Master Indenture, each Obligated Group Member 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 Obligated Group Members has executed or shall execute an Account Control Agreement, has executed or shall execute and cause to be filed Uniform Commercial Code financing statements, and has executed or shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary in order to perfect or maintain the perfection of such security interest. Each Obligated Group Member authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. Each Obligated Group Member 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.

(b) Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Obligated Group Member at any time for any lawful purpose, except as otherwise provided in the Master Indenture. In the event that any Obligated Group Member is delinquent for more than one (1) Business Day in the payment of any Required Payment, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, unless such Required Payment is paid within 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 subsection (a) above and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or

preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Obligated Group Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Obligated Group Member; provided, however, that Obligated Group Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Obligated Group Member agrees to execute and deliver all instruments as may be required to implement by the Master Indenture. Each Obligated Group Member further agrees that a failure to comply with the terms of the Master Indenture shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Obligated Group Members pursuant to the provisions of the Master Indenture described under this caption.

(c) Upon receipt of Gross Revenues, each Obligated Group Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Fund and not in any other fund or account; (ii) that the Gross Revenue Fund will be held as a deposit at the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

Notwithstanding any other provision of the Master Indenture, the Gross Revenue Fund may consist of any number of deposit accounts provided that each such deposit account shall be established at a Depository Bank which has entered into an Account Control Agreement with the Master Trustee and one or more Obligated Group Members.

Debt Coverage

(a) Each Obligated Group Member, respectively, further covenants and agrees to manage its operations such that Income Available for Debt Service for the Obligated Group calculated at the end of each Fiscal Year will be not less than 1.10 times Maximum Annual Debt Service.

(b) Within 5 months after the end of each Fiscal Year, the Obligated Group Representative shall compute the Debt Service Coverage Ratio for the Obligated Group for such Fiscal Year and furnish to the Master Trustee, an Officer's Certificate setting forth the results of such computation. The Obligated Group Representative covenants that if at the end of such Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.1:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Group or the methods of operation of the Obligated Group to increase the Debt Service Coverage Ratio to at least 1.1:1.0 for subsequent Fiscal Years (or, if in the opinion of the Independent Consultant, the attainment of such level is impracticable, to the highest practicable level). Copies of the recommendations of the Independent Consultant shall be filed with the Master Trustee within 90 days of the retention of the Independent Consultant. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If either (i) the Obligated Group complies in all material respects with the reasonable recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection or (ii) the Obligated Group Representative determines that such recommendations are not in the best interests of the Obligated Group (and accordingly will not be followed) as evidenced by an Officer's Certificate filed with the Master Trustee, the Obligated Group will be deemed to have

complied with the covenants set forth in the Master Indenture for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio shall be less than 1.1:1.0; provided, however, that the Debt Service Coverage Ratio shall not be reduced to less than 1.0:1.0 for any Fiscal Year. Notwithstanding the foregoing, the Obligated Group Members shall not be excused from taking any action or performing any duty required under the Master Indenture and no other Event of Default shall be waived by the operation of the provisions of 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 Debt Service Coverage Ratio of 1.1:1.0 to be met, then such ratio shall be reduced to 1.0:1.0.

(d) Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant; provided, however, that the Debt Service Coverage Ratio shall not be reduced to a ratio of less than 1.0:1.0.

Limitation on Disposition of Assets

(a) Each Obligated Group Member covenants that it will not sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (i) such Property as is described in Exhibit D to the Master Indenture which may be disposed of by the Obligated Group solely upon the written consent of the Obligated Group Representative; (ii) in the ordinary course of business; or (iii) as part of a disposition of all or substantially all of its assets as permitted by the Master Indenture, with a Book Value in excess of 10% of the Book Value of the Property of the Obligated Group, unless prior to said disposition:

(1) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is or shall become within the next two (2) Fiscal Years inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group Members; or

(2) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Value of the Property so disposed of by the Obligated Group Members in any Fiscal Year pursuant to the provision described in the Master Indenture does not exceed 5% of the total Value of the Property of the Obligated Group; or

(3) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Person who is not an Obligated Group Member if such Person shall become a Member pursuant to the Master Indenture substantially simultaneously with such transfer; or

(4) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to another Person in connection with a sale/leaseback or lease/leaseback financing transaction relating to such Property; or

(5) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and does not materially adversely affect the operations of the Obligated Group; or

(6) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

(b) Notwithstanding the foregoing, nothing shall prohibit any disposition of assets among Obligated Group Members nor shall prohibit the Obligated Group Members from: (1) making loans, including, without limitation, employee relocation loans, physician recruitment loans or other credit/funding extensions, provided that such loans or other credit/funding extensions are in writing and the Master Trustee receives an Officer's Certificate to the effect that (x) such loans are in furtherance of the exempt purposes of the Obligated Group Members or (y) the Obligated Group Members reasonably expect such loans to be repaid and such loans bear interest at a reasonable rate of interest and on commercially reasonable terms; or (2) transferring restricted gifts for the Obligated Group Members to an Affiliated Corporation which has the purpose to receive and disburse such restricted gifts.

Merger, Consolidation, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a "Merger Transaction") unless:

(a) After giving effect to the Merger Transaction, (i) the successor or surviving entity (hereinafter, the "Surviving Entity") is an Obligated Group Member, or (ii) the Surviving Entity (x) shall be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, (y) shall become an Obligated Group Member pursuant to the Master Indenture and (z) pursuant to the Related Supplement required by the Master Indenture, shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member under the Indenture;

(b) The Master Trustee receives an Officer's Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation;

(d) The Master Trustee receives an Opinion of Counsel to the effect that: (i) all conditions in the Master Indenture relating to the Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions set forth in the Master Indenture and is liable on all Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Obligations then Outstanding and such Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as though it were an Obligated Group Member as of the date of the execution of the Master Indenture and shall thereafter have the right to participate in

transactions under the Master Indenture relating to Obligations to the same extent as the other Obligated Group Members. All Obligations issued under the Master Indenture on behalf of a Surviving Entity shall have the same legal rank and benefit under the Master Indenture as Obligations issued on behalf of any other Obligated Group Member.

Preparation and Filing of Financial Statements, Certificates and Other Information

(a) Each Obligated Group Member covenants that it will keep adequate records and books of accounts in which complete and correct entries shall be made (said books shall be subject to the inspection by the Master Trustee (which inspection the Master Trustee is not required to make) during regular business hours after reasonable notice and under reasonable circumstances).

(b) The Obligated Group Representative covenants that it will furnish to the Master Trustee and any Related Bond Issuer that shall request the same in writing:

(1) As soon as practicable, but in no event more than 5 months after the last day of each Fiscal Year, one or more financial statements which, in the aggregate, shall include the Obligated Group Members. Such financial statements:

(A) may consist of (i) consolidated or combined financial results including one or more Members of the Obligated Group and one or more other Persons required to be consolidated or combined with such Member(s) of the Obligated Group under GAAP or (ii) special purpose financial statements including only Members of the Obligated Group;

(B) shall be audited by an Accountant selected by the Obligated Group Representative and shall be prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations);

(C) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(D) if financial statements delivered to the Master Trustee pursuant to the provisions of the Master Indenture described in this subsection include financial information with respect to any Person who is not an Obligated Group Member or an Immaterial Affiliate as provided pursuant to clause (3) below or do not include financial information with respect to all Obligated Group Members, then the financial statements shall contain a consolidating or combining schedule from which financial information solely relating to the Obligated Group Members and Immaterial Affiliates may be derived.

(2) At the time of the delivery of financial statements complying with the provisions of the Master Indenture described under subsection (b) above (such financial statements being hereinafter referred to as the "Financial Statements"), a certificate of the chief financial officer of the Obligated Group Representative, stating that the Obligated Group Representative has made a review of the activities of the Obligated Group Members during the preceding Fiscal Year for the purpose of determining whether or not the Obligated Group Members have complied with all of the terms, provisions and conditions of the Master Indenture and that each Obligated Group Member has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and none of such Obligated Group Members is in default in the performance or observance of any of the terms, covenants,

provisions or conditions, or if any Obligated Group Member shall be in default, such certificate shall specify all such defaults and the nature thereof.

(3) Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates need not be excluded from Financial Statements delivered to the Master Trustee pursuant to the provisions of the Master Indenture described under this caption, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Obligated Group Members for all purposes of the Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates.

(c) The Master Trustee shall not be obligated to review, verify, or analyze any Financial Statements delivered to the Master Trustee under the Master Indenture, and shall only retain such Financial Statements as a repository for the Holders.

Membership in Obligated Group. Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture;

(b) a Related Supplement executed by the Obligated Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member (i) agrees to become an Obligated Group Member, (ii) agrees to be bound by the terms of the Master Indenture, the Related Supplements and the Obligations, and (iii) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations, to execute and deliver Obligations and to make payments on all Obligations;

(c) an Opinion of Counsel to the effect that: (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of the Master Indenture; (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed new Obligated Group Member will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation.

Withdrawal from Obligated Group. Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) the written consent of the Obligated Group Representative to the withdrawal of such Obligated Group Member;

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel to the effect that: (i) the withdrawal of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (ii) the withdrawal of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Upon compliance with the conditions contained in the provisions of the Master Indenture described under this caption, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations under the Master Indenture, under all Related Supplements and under all Obligations.

Notwithstanding the foregoing, the Corporation may not withdraw from the Obligated Group unless prior to or concurrently with such withdrawal, the Corporation shall transfer all or substantially all of its assets to another Member of the Obligated Group.

Defaults and Remedies

Events of Default. Each of the following events shall be an Event of Default under the Master Indenture:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on, or any other Required Payment on, any Obligation.

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) and shall not have cured such failure within 60 days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations; provided that if such failure can be remedied but not within such 60 day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the failure.

The Corporation has proposed amendment of the percentage set forth in subsection (b) above from 25% in aggregate principal amount of Outstanding Obligations to a majority in aggregate principal amount of Outstanding Obligations. Upon securing the consent of the Holders of 100% in aggregate principal amount of Outstanding Obligations, such amendment will take effect. By purchasing the Bonds, the purchasers and Beneficial Owners will be deemed to have consented to such amendment.

(c) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the

Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days.

(d) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(e) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within 10 days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default under the Master Indenture which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

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, upon (i) the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default under the Master Indenture has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided, however, that if the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations. Notwithstanding the foregoing, no Obligation shall be accelerated if the Event of Default is the result of the nonpayment of a Subordinate Financial Product Extraordinary Payment issued on or after the date of effectiveness of the Master Indenture.

The Corporation has proposed amendment of the percentage set forth in subsection (a) above from 25% in aggregate principal amount of Outstanding Obligations to a majority in aggregate principal amount of Outstanding Obligations. Upon securing the consent of the Holders of 100% in aggregate principal amount of Outstanding Obligations, such amendment will take effect. By purchasing the Bonds, the purchasers and Beneficial Owners will be deemed to have consented to such amendment.

(b) At any time after the Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(1) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than payments then due only because of such declaration);

(2) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due;

(3) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group under the Master Indenture; and

(4) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Obligated Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders under the Master Indenture by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(1) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(2) Civil action upon all or any part of the Obligations;

(3) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(4) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Obligations; and

(5) Enforcement of any other right or remedy of the Holders conferred by law or by the Master Indenture.

The Corporation has proposed amendment of the percentage set forth in subsection (a) above from 25% in aggregate principal amount of Outstanding Obligations to a majority in aggregate principal amount of Outstanding Obligations. Upon securing the consent of the Holders of 100% in aggregate principal amount of Outstanding Obligations, such amendment will take effect. By purchasing the Bonds, the purchasers and Beneficial Owners will be deemed to have consented to such amendment.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request.

Application of Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture described under the caption "Default") (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of the Master Indenture):

First: To the payment of all installments of interest then due on the Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on such date, without any discrimination or preference;

Second: To the payment of all installments of principal then due on the Obligations (whether at maturity or by call for redemption) and other unpaid Required Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of principal due on the same date, then to the payment thereof ratably, according to the amounts of principal due on such date, without any discrimination or preference;

Third: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of the Master Indenture):

First: To the payment of the principal and interest and other Required Payments (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary

Payments, but excluding Subordinate Financial Product Extraordinary Payments) then due and unpaid on the Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment or payment over any other installment or payment or of any Obligation over any other Obligation, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue, provided such moneys are applied by the Master Trustee to the payment of such principal. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of the Master Indenture and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or such Person as a court of competent jurisdiction may direct.

Remedies Not Exclusive. No remedy granted by the terms of the Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or existing at law or in equity.

Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Subject to the provisions of the Master Indenture described above under the caption "Application of Moneys After Default," any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations.

Master Trustee to Represent Holders. The Master Trustee is by the Master Indenture irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the rights and remedies available to the Holders under the provisions of the Master Indenture, the Obligations, any Related Supplement and applicable provisions of law, in each case subject to the provisions of the Master Indenture described below under the caption "Holders' Control of Proceedings." The Holders, by taking and holding the Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

Holders' Control of Proceedings. If an Event of Default has occurred and is continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in

aggregate principal amount of Outstanding Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms of the Master Indenture. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in such direction. Nothing shall impair the right of the Master Trustee to take any other action authorized by the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Termination of Proceedings. In case any proceeding instituted by the Master Trustee with respect to any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or the Holders, then the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture. All rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Waiver of Event of Default

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by the Master Indenture to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

(c) Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Obligations, the Master Trustee shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in the Master Indenture, the failure to pay the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Obligations to be due and payable, (b) after declaring the Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such appointment shall confer. Each Obligated Group Member consents, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and

proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Remedies Subject to Provisions of Law. All rights, remedies and powers provided by the Master Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law. All the provisions of the Master Indenture are intended to be subject to all applicable mandatory provisions of law that may be continuing and to be limited to the extent necessary so that they will not render any provision of the Master Indenture invalid or unenforceable under the provisions of any applicable law.

Notice of Default. Within 10 days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term "Event of Default" for purposes of the provisions of the Master Indenture being described under this caption being limited to the events specified in the provisions of the Master Indenture described above under the caption "Events of Default" under subsection (a) through (f), not including any grace periods provided for in subsection (b), (c) and (d). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in the Master Indenture, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

Supplements and Amendments

Supplements Not Requiring Consent of Holders. The Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

- (a) To correct any ambiguity or formal defect or omission in the Master Indenture;
- (b) To correct or supplement any provision which may be inconsistent with any other provision or to make any other provision with respect to matters or questions arising under the Master Indenture, which, in either case, does not materially and adversely affect the interests of the Holders;
- (c) To grant or confer ratably upon all of the Holders any additional benefits, rights, remedies, powers or authority, including, without limitation, the addition of provisions providing for the creation of a credit group which credit group shall consist of all Obligated Group Members and Persons designated as affiliates of Obligated Group Members, or to add to the covenants of and restrictions on the Obligated Group Members;
- (d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;
- (e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture;
- (f) To obligate a successor to any Obligated Group Member as provided in the Master Indenture;
- (g) To add a new Obligated Group Member as provided in the Master Indenture; or

(h) To make any other change which does not materially and adversely affect the interests of the Holders.

Supplements Requiring Consent of Holders

(a) Other than Related Supplements referred to in the provisions of the Master Indenture described above under the caption "Supplements Not Requiring Consent of Holders," and subject to the terms contained in the Master Indenture and described under this caption, the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained in the Master Indenture; provided, however, with respect to any Obligation registered in the name of a Related Bond Trustee and securing a Related Series of Bonds, payment of the principal of and interest on which is insured or otherwise guaranteed by a municipal bond insurance policy or is secured by a letter of credit, the provider of such municipal bond insurance or letter of credit shall be deemed to be the Holder of such Obligation for purposes of consenting to and approving the execution of Related Supplements for purposes of the Master Indenture, except as otherwise provided in the applicable Related Supplement or Obligation; and provided, further, however, that nothing in the Master Indenture shall permit or be construed as permitting a Related Supplement which would:

(i) extend the stated maturity of, or time for paying interest on, any Obligation or reduce the principal amount of or the redemption premium or rate of interest or change the method of calculating interest payable on, or reduce any other Required Payment on any Obligation without the consent of the Holder of such Obligation;

(ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in 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.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives: (i) a Request of the Obligated Group Representative to enter into such Related Supplement; (ii) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement; (iii) the proposed Related Supplement; and (iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in the provisions of the Master Indenture described in subsection (a) above for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing

with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Obligated Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Execution and Effect of Supplements

(a) In executing any Related Supplement permitted by the Master Indenture, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Related Supplement is authorized or permitted by the Master Indenture. The Master Trustee may (but shall not be obligated to) enter into any Related Supplement that materially and adversely affects the Master Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any Related Supplement in accordance with the provisions of the Master Indenture described under the caption "Supplements and Amendments," the provisions of the Master Indenture shall be deemed modified in accordance therewith. Such Related Supplement shall form a part of the Master Indenture for all purposes and every Holder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Related Supplement in accordance with the Master Indenture may, and, if required by the Obligated Group Representative or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Related Supplement. If the Obligated Group Representative or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of the Obligated Group Representative to any such Related Supplement may be prepared and executed by the Obligated Group Representative and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

Amendment of Related Supplements. Any Related Supplement may provide that the provisions thereof may be amended without the consent of or notice to any of the Holders, or pursuant to such terms and conditions as may be specified in such Related Supplement. If a Related Supplement does not contain provisions relating to the amendment thereof, the amendment of such Related Supplement shall be governed by the provisions of the Master Indenture described under the caption "Supplements and Amendments."

Satisfaction and Discharge

The Master Indenture shall cease to be of further effect if: (i) all Obligations previously authenticated (other than any Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or (ii) all Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or (iii) a deposit is made in trust with the Master Trustee (or with one or

more national banking associations or trust companies acceptable to the Master Trustee pursuant to an agreement between an Obligated Group Member and such national banking associations or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and all other sums payable under the Master Indenture by the Obligated Group Members are also paid.

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 32

General

Supplement No. 32 provides for the issuance of Obligation No. 32 and provides the terms and form thereof. Obligation No. 32 further secures the obligation of the Corporation arising under and pursuant to the Loan Agreement with respect to the Bonds.

Payments on Obligation No. 32; Credits

Principal of and interest on Obligation No. 32 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 pursuant to the provisions of Supplement No. 32 described in subsection (b) below with respect to credits and as described under the caption "Prepayment of Obligation No. 32" below regarding prepayment, payments on the principal of and interest on Obligation No. 32 shall be made at the times and in the amounts specified in Obligation No. 32 by the Corporation (i) depositing the same with or to the account of the Trustee at or prior to the opening of business on the day such payments shall become due or payable (or on the next succeeding business day if such date is a Saturday, Sunday or bank holiday in the city in which the principal corporate trust office of the Trustee is located) and (ii) giving a notice to the Master Trustee and the Trustee of each payment of principal or interest on Obligation No. 32, specifying the amount paid, and identifying such payment as a payment on Obligation No. 32.

The Corporation shall receive credit for payment on Obligation No. 32, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 32 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. 32;

(ii) On installments of principal of Obligation No. 32 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. 32;

(iii) On installments of principal and interest, respectively, on Obligation No. 32 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 "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. 32, 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. 32 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. 32 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. 32 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 No. 32

So long as all amounts that have become due under Obligation No. 32 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. 32. Prepayments may be made by payments of cash or surrender of Bonds as described above under the caption "Payments on Obligation No. 32; Credits." All such prepayments shall be deposited upon receipt in the Optional Redemption Account and, at the request of and as determined by the Corporation, credited against payments due under Obligation No. 32 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. 32 remain unpaid, the Corporation shall not be relieved of its obligations under the Master Indenture, including Supplement No. 32.

Prepayments made under Supplement No. 32 shall be credited against amounts to become due on Obligation No. 32 as described above, under the caption "Payments on Obligation No. 32; Credits" and as provided pursuant to the provisions of the Loan Agreement described below under the caption "Loan Agreement - Prepayment."

The Corporation may also prepay all of its indebtedness under Obligation No. 32 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. 32 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. 32 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. 32 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. 32 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. 32 be redeemed unless a corresponding amount of Bonds is also redeemed.

INDENTURE

The Indenture sets forth the terms of the Bonds, the nature and extent of the security for the Bonds, various rights of the Bondholders, the rights, duties and immunities of the Trustee and the rights and obligations of the Authority.

Terms of the Bonds; Registration; Denominations; Payment of Principal and Interest.

The Bonds shall be issued as fully registered Bonds without coupons in Minimum Authorized Denominations. The Bonds shall be registered in the name of "Cede & Co.," as initial nominee of the Securities Depository, and shall be evidenced by one Bond certificate in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture. The Bonds shall be dated the Issue Date.

The Bonds shall bear interest, payable in lawful money of the United States of America, at the rates determined pursuant to the Indenture; provided, however, that no Bond shall bear interest in excess of the Maximum Interest Rate.

For any Weekly Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on the Tuesday (whether or not a Business Day) immediately preceding the Interest Payment Date (or, if sooner, the last day of the Weekly Interest Rate Period). For any Short-Term Interest Rate Period, Index Floating Rate Period or Long-Term Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date. For any Daily Interest Rate Period or Two-Day Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date (or, if sooner, the last day of the Daily Interest Rate Period or Two-Day Interest Rate Period, respectively). For any Windows Interest Rate Period, interest shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Thursday, commencing on and including the second preceding Interest Accrual Date) and ending on and including the Wednesday immediately preceding the Interest Payment Date (or, if sooner, the last day of the Windows Interest Rate Period).

Interest on the Bonds shall be payable for the final Interest Rate Period to the date on which the Bonds shall have been paid in full. Interest shall be computed, in the case of a Long-Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and in the case of any other Interest Rate Period, on the basis of a 365 or 366-day year, as appropriate, and the actual number of days elapsed.

The determination of the Daily Interest Rate, Weekly Interest Rate, Two-Day Interest Rate, Long-Term Interest Rate, the Windows Spread and each Commercial Paper Period and Commercial Paper Rate by the Remarketing Agent and the determination of the Index Floating Rate by the Remarketing Agent or the Trustee, as applicable, shall be conclusive and binding upon the Corporation, the Authority, the Trustee, the Remarketing Agent, the Credit Facility Provider (if any) and the Bondholders. The determination of the Windows Interest Rate by the Windows Calculation Agent shall be conclusive and binding upon the Corporation, the Authority, the Trustee, the Remarketing Agent, the Credit Facility Provider (if any) and the Bondholders.

Interest on the Bonds shall be payable on each Interest Payment Date by the Trustee during any Weekly Interest Rate Period, Long-Term Interest Rate Period, Index Floating Rate Period and Windows Interest Rate Period by check mailed on the date when due to the Holders of Bonds at the close of business on the Record Date in respect of such Interest Payment Date at the addresses of the Holders as shall appear on the registration books of the Trustee. Notwithstanding the foregoing: (i) interest on Bonds bearing interest at a Commercial Paper Rate, Daily Interest Rate or Two-Day Interest Rate shall be paid by wire transfer; (ii) any Holder of an aggregate principal amount Bonds in excess of \$1,000,000 as shown on the registration books of the Trustee bearing interest in any Interest Rate period who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with written wire transfer instructions for transfer to an account within the United States, shall be paid by wire transfer in accordance with the wire transfer instructions provided by the Holder of such Bonds; and (iii) interest on any Bond in a Short-Term Interest Rate Period which is not registered in the name of the Securities Depository (or its nominee) shall be payable only upon presentation of such Bond to the Trustee at its Principal Office.

If available funds are insufficient on any Interest Payment Date to pay the interest then due on the Bonds, interest shall continue to accrue thereon but shall cease to be payable to the Holders as of the related Record Date. If sufficient funds for the payment of such overdue interest thereafter become available, the Trustee shall (A) establish a "special interest payment date" for the payment of the overdue interest and a Special Record Date (which shall be a Business Day) for determining the Bondholders entitled to such payment and (B) mail notices by first class mail of such dates as soon as practicable. Notice of each such date so established shall be mailed to each Bondholder at least 10 days prior to the Special Record Date but not more than 30 days prior to the Special Interest Payment Date. The overdue interest shall be paid on the special interest payment date to the Holders, as shown on the registration books of the Trustee as of the close of business on the Special Record Date.

Notwithstanding the provisions of the Indenture described above, Liquidity Facility Bonds shall bear interest at the Liquidity Facility Rate and the payment terms of Liquidity Facility Bonds shall be governed by the Reimbursement Agreement or the Liquidity Facility, as applicable.

The principal or Redemption Price of the Bonds shall be payable in lawful money of the United States of America at the Principal Office of the Trustee upon surrender of the Bonds to the Trustee for cancellation.

The Trustee shall identify all payments (whether made by check or by wire transfer) of interest and principal by CUSIP number of the Bonds.

Initial Interest Rate Period; Subsequent Interest Rates.

The initial Interest Rate Period shall be the Interest Rate Period set forth on the cover page of the Official Statement. The Interest Rate Period on the Bonds may thereafter be converted to a Daily Interest Rate Period, a Two-Day Interest Rate Period, a Short-Term Interest Rate Period, an Index Floating Rate Period, a Windows Interest Rate Period or a Long-Term Interest Rate Period in accordance with the provisions of the Indenture.

Weekly Interest Rate Period

(A) Determination of Weekly Interest Rate. During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by no later than 5:00 p.m., New York City time, on Tuesday of each week during such Weekly Interest Rate Period, or if such day shall not be a Business Day, then on the next succeeding Business

Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday (whether or not a Business Day). Thereafter, each Weekly Interest Rate shall apply to the period commencing on the first Wednesday on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Tuesday (whether or not a Business Day), unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period. The Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the effective date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for any week, then the Weekly Interest Rate for such week shall be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such preceding week was determined by the Remarketing Agent. If the Weekly Interest Rate for the immediately preceding week was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent shall be held to be invalid or unenforceable by a court of law, then the interest rate for such week shall be equal to 110% of the SIFMA Index on the day such Weekly Interest Rate would otherwise be determined as provided in the Indenture for such Weekly Interest Rate Period.

(B) Conversion to Weekly Interest Rate. Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at a Weekly Interest Rate by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). Such direction of the Corporation shall specify: (i) the proposed effective date of the Weekly Interest Rate Period, which date shall be (1) a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such direction, (2) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, (3) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, and (4) in the case of a Conversion from an Index Floating Rate Period, any Business Day on or after the Par Call Date; and (ii) the Purchase Date, which shall be the effective date of such Conversion to a Weekly Interest Rate Period. In addition, such direction shall be accompanied by (1) a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the effective date of the Conversion to the Weekly Interest Rate Period and (2) a form of the notice to be mailed by the Trustee to the Holders of the Bonds. During each Weekly Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate shall be a Weekly Interest Rate.

(C) Notice of Conversion to Weekly Interest Rate. The Trustee shall give notice by first-class mail of a Conversion to a Weekly Interest Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Weekly Interest Rate Period. Such notice shall state or include, as applicable: (i) that the interest rate on the Bonds will be converted to a Weekly Interest Rate unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion on the effective date of such Conversion in the Interest Rate Period or unless the Corporation rescinds its election to convert the interest rate to a Weekly Interest Rate in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to

Conversion;" (ii) the proposed effective date of such Weekly Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the Conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (iv) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

(D) Change of Date of Determination of Weekly Interest Rate. Upon any mandatory tender of the Bonds in connection with a Conversion of the Bonds to a Weekly Interest Rate Period, the day of the week on which the Remarketing Agent determines the Weekly Interest Rate (which as of the Issue Date is Tuesday) may be changed to a different day of the week as designated by the Corporation (referred to in this paragraph as the "Weekly Interest Rate Determination Date") in a Certificate of the Corporation delivered to the Remarketing Agent, the Trustee, the Credit Facility Provider (if any) and the Liquidity Facility Provider (if any) prior to such mandatory tender. Upon such mandatory tender, the first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Weekly Interest Rate Determination Date (whether or not a Business Day). Thereafter, each Weekly Interest Rate shall apply to the period commencing on the first day following the Weekly Interest Rate Determination Date on or after the date of determination thereof (whether or not a Business Day) and ending on the next succeeding Weekly Interest Rate Determination Date (whether or not a Business Day), unless such Weekly Interest Rate Period shall end on a day other than the Weekly Interest Rate Determination Date, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the day following the Weekly Interest Rate Determination Date (whether or not a Business Day) preceding the last day of such Weekly Interest Rate Period and ending on the last day of such Weekly Interest Rate Period.

Long-Term Interest Rate Period

(A) Determination of Long-Term Interest Rate. During the Long-Term Interest Rate Period, the Bonds shall bear interest at the Long-Term Interest Rate. The Long-Term Interest Rate shall be determined by the Remarketing Agent on a Business Day no later than the Long-Term Conversion Date. Subject to the provisions of the Indenture described below under clause (D), the Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the date and at the time of such determination at a price (without regarding accrued interest) equal to the principal amount thereof. If, for any reason, the Long-Term Interest Rate is not so determined for the Long-Term Interest Rate Period by the Remarketing Agent on or prior to the first day of such Long-Term Interest Rate Period, then the Bonds (i) shall bear interest at the Weekly Interest Rate in accordance with the provisions of the Indenture, and shall continue to bear interest at a Weekly Interest Rate determined in accordance with the provisions of the Indenture until such time as the interest rate on the Bonds shall have been converted to Commercial Paper Rates, a Long-Term Interest Rate, a Daily Interest Rate, a Two-Day Interest Rate, an Index Floating Rate or a Windows Interest Rate and (ii) shall be subject to mandatory purchase on the first day of such Weekly Interest Rate Period as set forth in the Indenture.

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

(1) Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at a Long-Term Interest Rate by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). Such direction of the

Corporation: (i) shall specify the proposed effective date of the Long-Term Interest Rate Period, which date shall be (1) a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such direction, (2) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, (3) in the case of a Conversion from one Long-Term Interest Rate Period to another Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, and (4) in the case of a Conversion from an Index Floating Rate Period, any Business Day on or after the Par Call Date; and (ii) with respect to any such Long-Term Interest Rate Period, may specify redemption prices and periods different than those set forth in the Indenture, if approved by Bond Counsel as provided in the Indenture.

The last day of the Long-Term Interest Rate Period shall be determined by the Remarketing Agent on a Business Day not later than the Long-Term Conversion Date (which last day shall be either the day immediately prior to the Maturity Date, or a day which is at least 181 days after the effective date thereof).

(2) The direction of the Corporation shall be accompanied by a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the Long-Term Conversion Date and by a form of the notice to be mailed by the Trustee to the Holders of the Bonds. During the Long-Term Interest Rate Period commencing and ending on the dates so determined and during each successive Long-Term Interest Rate Period, if any, so determined, the interest rate borne by the Bonds shall be a Long-Term Interest Rate.

(3) If, by the 15th day prior to the last day of any Long-Term Interest Rate Period which ends on a day other than the day immediately preceding the Maturity Date of the Bonds, the Trustee shall not have received notice of the Corporation's election that, during the next succeeding Interest Rate Period, the Bonds shall bear interest at a Weekly Interest Rate, Daily Interest Rate, Two-Day Interest Rate, Index Floating Rate, Windows Interest Rate or Long-Term Interest Rate or at Commercial Paper Rates, the next succeeding Interest Rate Period shall be a Weekly Interest Rate Period (without the necessity of complying with the provisions of the Indenture applicable to conversion to a Weekly Interest Rate Period) from the day following the last day of such Long-Term Interest Rate Period until such time as the interest rate on the Bonds shall be converted to a Long-Term Interest Rate, Daily Interest Rate, Two-Day Interest Rate, Index Floating Rate, Windows Interest Rate or Commercial Paper Rates as provided in the Indenture. Notwithstanding the foregoing, the Bonds shall be subject to mandatory purchase on the first day following the last day of such Long-Term Interest Rate Period.

(4) After the Fixed Rate Conversion Date, the Bonds shall no longer be subject to optional or mandatory tender.

(C) Notice of Conversion to or Continuation of Long-Term Interest Rate. The Trustee shall give notice of a Conversion to a (or the establishment of another) Long-Term Interest Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Long-Term Interest Rate Period. Such notice shall state or include, as applicable: (i) that the interest rate on the Bonds shall be converted to, or continue to be, a Long-Term Interest Rate unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion in the Interest Rate Period on the effective date of such Conversion or unless the Corporation rescinds its election to convert the interest rate to a Long-Term Interest Rate in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion;" (ii) the proposed effective date of such Long-Term Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the

Conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (iv) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

(D) Sale at Premium or Discount. Notwithstanding the provisions of the Indenture described above under the caption "Determination of Long-Term Interest Rate," the Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the date and at the time of such determination at a price which will result in the lowest net interest cost for the Bonds, after taking into account any premium or discount at which the Bonds are sold by the Remarketing Agent, provided that:

(1) the Remarketing Agent certifies to the Trustee and the Corporation that the sale of the Bonds at the interest rate and premium or discount specified by the Remarketing Agent is expected, in the Remarketing Agent's reasonable judgment, to result in the lowest net interest cost for the Bonds on the Long-Term Conversion Date;

(2) the Corporation consents in writing to the sale of the Bonds by the Remarketing Agent at such premium or discount;

(3) in the case of Bonds to be sold at a discount, either (a) a Liquidity Facility is in effect and provides for the purchase of the Bonds at such discount or (b) the Corporation agrees to transfer to the Trustee on the Long-Term Conversion Date, in immediately available funds, for deposit in the Corporation Purchase Account, an amount equal to such discount;

(4) in the case of Bonds to be sold at a premium, the Remarketing Agent shall transfer to the Trustee for deposit in the Revenue Fund an amount equal to such premium;

(5) on or before the date of the determination of the Long-Term Interest Rate, the Corporation delivers to the Trustee a letter of Bond Counsel to the effect that Bond Counsel expects to be able to give a Favorable Opinion of Bond Counsel on the Long-Term Conversion Date; and

(6) On or before the Long-Term Conversion Date, a Favorable Opinion of Bond Counsel shall have been received by the Trustee and confirmed to the Corporation and the Remarketing Agent.

Short-Term Interest Rate Periods

(A) Determination of Commercial Paper Periods and Commercial Paper Rates. During each Short-Term Interest Rate Period, each Bond shall bear interest during each Commercial Paper Period for such Bond at the Commercial Paper Rate for such Bond. The Commercial Paper Period and the Commercial Paper Rate for each Bond need not be the same for any two Bonds, even if determined on the same date. Each of such Commercial Paper Periods and Commercial Paper Rates for each Bond shall be determined by the Remarketing Agent no later than the first day of each Commercial Paper Period. Each Commercial Paper Period shall be for a period of days within the range or ranges announced by the Remarketing Agent as possible Commercial Paper Periods, such announcement to be made no later than 11:00 a.m., New York City time on the first day of each Commercial Paper Period. Each Commercial Paper Period for each Bond shall be a period of not more than 180 days, determined by the Remarketing Agent to be the period which, together with all other Commercial Paper Periods will result in the lowest overall interest expense on the Bonds over the next succeeding 180 days. Each Commercial Paper Period shall end on either a day which immediately precedes a Business Day or on the day immediately

preceding the Maturity Date for the Bonds. No Commercial Paper Period shall be set to end on a day later than the fifth day preceding the expiration of any Credit Facility or Liquidity Facility applicable to the Bonds. If, for any reason, a Commercial Paper Period for any Bond cannot be so determined by the Remarketing Agent, or if the determination of such Commercial Paper Period is held by a court of law to be invalid or unenforceable, then such Commercial Paper Period shall be 30 days, but if the last day so determined shall not be a day immediately preceding a Business Day, shall end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Maturity Date for the Bonds, shall end on the day immediately preceding such Maturity Date. In determining the number of days in each Commercial Paper Period, the Remarketing Agent shall take into account the following factors: (i) existing short-term, tax-exempt market rates and indices of such short-term rates; (ii) the existing market supply and demand for short-term tax-exempt securities; (iii) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality comparable to the Bonds; (iv) general economic conditions; (v) industry economic and financial conditions that may affect or be relevant to the Bonds; (vi) the Commercial Paper Periods of other Bonds; and (vii) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent, in its sole discretion, shall determine to be relevant.

The Commercial Paper Rate for each Commercial Paper Period for each Bond in a Short-Term Interest Rate Period shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by such Bond, would enable the Remarketing Agent to sell such Bond on the date and at the time of such determination at a price equal to the principal amount thereof. If, for any reason, a Commercial Paper Rate for any Bond in a Short-Term Interest Rate Period is not so established by the Remarketing Agent for any Commercial Paper Period, or if such Commercial Paper Rate is determined by a court of law to be invalid or unenforceable, then the Commercial Paper Rate for such Commercial Paper Period shall be the rate per annum equal to 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the first day of such Commercial Paper Period and which maturity most nearly equals the Commercial Paper Period for which a Commercial Paper Rate is being calculated.

(B) Conversion to Commercial Paper Rates. Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at Commercial Paper Rates by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). Such direction of the Corporation shall specify: (i) the proposed effective date of the Short-Term Interest Rate Period (during which the Bonds shall bear interest at Commercial Paper Rates), which date shall be (1) a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such direction, (2) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, and (3) in the case of a Conversion from an Index Floating Rate Period, any Business Day on or after the Par Call Date; and (ii) the Purchase Date, which shall be the effective date of the Conversion to the Short-Term Interest Rate Period. In addition, the direction of the Corporation shall be accompanied by (1) a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the effective date of the Conversion to the Short-Term Interest Rate Period and (2) a form of the notice to be mailed by the Trustee to the Holders of the Bonds. During each Short-Term Interest Rate Period commencing on the date so specified and ending, with respect to each Bond, on the day immediately preceding the effective date of the next succeeding Interest Rate Period with respect to such Bond, each such Bond shall bear interest at a Commercial Paper Rate during each Commercial Paper Period for such Bond.

In connection with a Conversion to Commercial Paper Rates, the Corporation may deliver a notice to the Trustee, the Remarketing Agent, and the Authority on or prior to the applicable Conversion Date advising Trustee, the Remarketing Agent, and the Authority that the Corporation intends to divide the Bonds into two or more subseries in connection with such Conversion and the Corporation may modify certain other terms of the Bonds, including, without limitation, Authorized Denominations and Sinking Fund Installment schedules, in order to accommodate dividing the Bonds into subseries if a Favorable Opinion of Bond Counsel is attached to such notice.

(C) Notice of Conversion to Commercial Paper Rates. The Trustee shall give notice by first-class mail of a Conversion to a Short-Term Interest Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Short-Term Interest Rate Period. Such notice shall state or include, as applicable: (i) that the Bonds shall bear interest at Commercial Paper Rates unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion on the effective date of such Conversion in the Interest Rate Period or unless the Corporation rescinds its election to convert the interest rate to Commercial Paper Rates in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion;" or other conditions precedent to such Conversion are not met; (ii) the proposed effective date of such Short-Term Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date of such Short-Term Interest Rate Period, regardless of whether any or all conditions precedent to the Conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (iv) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

(D) Conversion from Short-Term Interest Rate Period. Subject to the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," at any time during a Short-Term Interest Rate Period, the Corporation may elect that the Bonds no longer shall bear interest at Commercial Paper Rates and shall instead bear interest at a Weekly Interest Rate, a Long-Term Interest Rate, an Index Floating Rate, a Windows Interest Rate, a Daily Interest Rate or a Two-Day Interest Rate, as specified in such election. The date on which all Commercial Paper Periods determined for the Bonds shall end shall be the last day of the then-current Short-Term Interest Rate Period and the day next succeeding such date shall be the effective date of the Weekly Interest Rate Period, Daily Interest Rate Period, Two-Day Interest Rate Period, Index Floating Rate Period, Windows Interest Rate Period or Long-Term Interest Rate Period elected by the Corporation.

Daily Interest Rate Period

(A) Determination of Daily Interest Rate. During each Daily Interest Rate Period, the Bonds shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent on or before 10:00 a.m. New York City time, on each Business Day for such Business Day. The Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day shall be the same as the Daily Interest Rate for the immediately preceding Business Day. If for any reason a Daily Interest Rate is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day shall be the same as the Daily Interest Rate for the immediately preceding day and such rate shall continue until the earlier of (i) the date on which the Remarketing Agent determines a new Daily Interest Rate or (ii) the seventh day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of seven days as described in clause (ii) of the immediately preceding sentence, the interest rate applicable to

the Bonds, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 110% of the SIFMA Index until such Daily Interest Rate is again validly determined by such Remarketing Agent.

(B) Conversion to Daily Interest Rate. Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at a Daily Interest Rate by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). Such direction of the Corporation shall specify: (i) the proposed effective date of the Daily Interest Rate Period, which date shall be (1) a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such direction, (2) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, (3) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period and (4) in the case of a Conversion from an Index Floating Rate Period, any Business Day on or after the Par Call Date; and (ii) the Purchase Date, which shall be the effective date of such Conversion to a Daily Interest Rate. In addition, such direction shall be accompanied by (1) a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the effective date of the Conversion to the Daily Interest Rate Period and (2) a form of the notice to be mailed by the Trustee to the Holders of the Bonds. During each Daily Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate shall be a Daily Interest Rate.

(C) Notice of Conversion to Daily Interest Rate. The Trustee shall give notice by first-class mail of a Conversion to a Daily Interest Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Daily Interest Rate Period. Such notice shall state or include, as applicable: (i) that the interest rate on the Bonds will be converted to a Daily Interest Rate unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion on the effective date of such Conversion in the Interest Rate Period or unless the Corporation rescinds its election to convert the interest rate to a Daily Interest Rate in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion;" (ii) the proposed effective date of such Daily Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the Conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (iv) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

Two-Day Interest Rate Period

(A) Determination of Two-Day Interest Rate. During each Two-Day Interest Rate Period, the Bonds shall bear interest at the Two-Day Interest Rate, which shall be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the first day of the Two-Day Interest Rate Period and on each Monday, Wednesday and Friday thereafter so long as interest on the Bonds is to be payable at a Two-Day Interest Rate or, if any Monday, Wednesday or Friday is not a Business Day, on the next Monday, Wednesday or Friday that is a Business Day. The Two-Day Interest Rate set on any Business Day will be effective as of such Business Day and will remain in effect until the next day on which a Two-Day Interest Rate is required to be set in accordance with the terms of the Indenture set forth in the first sentence of this paragraph. Each Two-Day Interest Rate will be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if borne by the Bonds,

would enable the Remarketing Agent to sell the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof.

In the event that the Remarketing Agent fails to establish a Two-Day Interest Rate for the Bonds bearing interest at such rate, then the Bonds shall remain in the Two-Day Interest Rate Period and the Two-Day Interest Rate applicable to the Bonds, as determined by the Remarketing Agent, will be equal to the SIFMA Index multiplied by the SIFMA Percentage or, if the SIFMA Index or the SIFMA Percentage is unavailable, the One Month LIBOR Rate multiplied by the LIBOR Percentage or, if the One Month LIBOR Rate or the LIBOR Percentage is unavailable, the Applicable Percentage of the SIFMA Index, until the Two Day Interest Rate is again validly determined by the Remarketing Agent.

(B) Conversion to Two-Day Interest Rate. Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at a Two-Day Interest Rate by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). Such direction of the Corporation shall specify: (i) the proposed effective date of the Two-Day Interest Rate Period, which date shall be (1) a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such direction, (2) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds otherwise would be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, (3) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, and (4) in the case of a Conversion from an Index Floating Rate Period, any Business Day on or after the Par Call Date; and (ii) the Purchase Date, which shall be the effective date of such Conversion to a Two-Day Interest Rate Period. In addition, such direction shall be accompanied by (1) a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the effective date of the Conversion to the Two-Day Interest Rate Period and (2) a form of the notice to be mailed by the Trustee to the Holders of the Bonds as provided in the Indenture. During each Two-Day Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate shall be a Two-Day Interest Rate.

(C) Notice of Conversion to Two-Day Interest Rate. The Trustee shall give notice by first-class mail of a Conversion to a Two-Day Interest Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Two-Day Interest Rate Period. Such notice shall state or include, as applicable: (i) that the interest rate on the Bonds will be converted to a Two-Day Interest Rate unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion on the effective date of such Conversion in the Interest Rate Period or unless the Corporation rescinds its election to convert the interest rate to a Two-Day Interest Rate in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion;" (ii) the proposed effective date of such Two-Day Interest Rate Period; (iii) that the Bonds are subject to mandatory tender for purchase on such proposed effective date, regardless of whether any or all conditions to the Conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (iv) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

Windows Interest Rate and Windows Interest Rate Period

(A) Determination of Windows Interest Rate.

(1) During each Windows Interest Rate Period, the Bonds shall bear interest at the Windows Interest Rate, which shall be determined by the Windows Calculation Agent each Thursday (or if such day is not a Business Day, then on the next succeeding Business Day) and shall be equal to the SIFMA Index on such day plus the Windows Spread. The Windows Calculation Agent shall furnish each Windows Interest Rate so determined to the Trustee, the Remarketing Agent, the Authority and the Corporation by Electronic Means no later than the Business Day next succeeding the date of determination. The first Windows Interest Rate for each Windows Interest Rate Period shall be determined on or prior to the first day of such Windows Interest Rate Period, shall apply to the period commencing on the first day of such Windows Interest Rate Period and ending on and including the next succeeding Wednesday and shall be equal to the SIMFA Index as of the first day of such Windows Interest Rate Period (or, if the first day of such Windows Interest Rate Period is not a Thursday, the SIFMA Index as of the Thursday preceding the first day of such Windows Interest Rate Period) plus the Windows Spread. Thereafter, each Windows Interest Rate shall apply to the period commencing on and including Thursday and ending on and including the next succeeding Wednesday, unless such Windows Interest Rate Period ends on a day other than Wednesday, in which event the last Windows Interest Rate for such Windows Interest Rate Period shall apply to the period commencing on and including the Thursday preceding the last day of such Windows Interest Rate Period and ending on and including the last day of such Windows Interest Rate Period.

(2) During each Windows Interest Rate Period, the Remarketing Agent may (a) with the consent of the Corporation, increase the Windows Spread effective as of any Windows Optional Tender Date during each Remarketing Window, any Windows Mandatory Tender Date or any other mandatory Purchase Date for all of the Bonds that occurs pursuant to the Indenture during such Windows Interest Rate Period, or (b) reduce the Windows Spread effective as of any Windows Mandatory Tender Date or any other mandatory Purchase Date for all of the Bonds that occurs pursuant to the Indenture during such Windows Interest Rate Period. The sum of the SIFMA Index plus the revised Windows Spread shall be equal to the rate of interest per annum determined by the Remarketing Agent (based on Prevailing Market Conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of the Bonds on the effective date of the revised Windows Spread at a price (without regard to accrued interest) equal to the principal amount thereof. A revised Windows Spread shall apply to all Bonds as of the effective date of the revised Windows Spread. The Remarketing Agent shall give notice of the revised Windows Spread to the Trustee by Electronic Means not later than the second Business Day after the effective date of such revised Windows Spread. The Trustee shall give notice of such revised Windows Spread by first-class mail to the Holders of the Bonds, with a copy to the Authority, the Corporation and the Credit Facility Provider (if any), not later than the second Business Day after receiving notice of such revised Windows Spread from the Remarketing Agent.

(3) If the Windows Interest Rate for any week is held to be invalid or unenforceable by a court of law or if the SIMFA Index is not available for any week, then the Windows Interest Rate for such week shall be equal to 85% of the interest rate on 30 day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Windows Interest Rate would otherwise be determined as provided in the Indenture for such Windows Interest Rate Period, plus the Windows Spread.

(B) Conversion to Windows Interest Rate. Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice;

Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at a Windows Interest Rate by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). The direction of the Corporation shall specify (1) the proposed effective date of the Windows Interest Rate, which shall be (a) in each case, a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such direction, and (b) in addition, (1) in the case of a Conversion from a Long Term Interest Rate Period, the day immediately following the last day of the then current Long Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, (2) in the case of a Conversion from a Short Term Interest Rate Period, the day immediately following the last day of the Short Term Interest Rate Period, and (3) in the case of a Conversion from an Index Floating Rate Period, any Business Day on or after the Par Call Date, and (c) the Purchase Date, which shall be the proposed effective date of the Conversion to a Windows Interest Rate. In addition, the direction of the Corporation shall be accompanied by (i) a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the Conversion Date and (ii) a form of notice to be mailed to the Holders of the Bonds by the Trustee. During each Windows Interest Rate Period commencing on a date so specified and ending on the day immediately preceding the effective date of the next succeeding Interest Rate Period, the interest rate borne by the Bonds shall be a Windows Interest Rate. The Initial Windows Spread for each Windows Interest Rate Period shall be determined by the Remarketing Agent on a Business Day no later than the effective date of such Windows Interest Rate Period. The sum of the SIFMA Index plus the Initial Windows Spread shall be equal to the rate of interest per annum determined by the Remarketing Agent (based on Prevailing Market Conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of the Bonds on the Conversion Date at a price (without regard to accrued interest) equal to the principal amount thereof.

(C) Notice of Conversion to Windows Interest Rate. The Trustee shall give notice by first class mail of a Conversion of the interest rate on the Bonds to a Windows Interest Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Windows Interest Rate Period. Such notice shall state or include, as applicable: (1) that the interest rate on the Bonds shall be converted to a Windows Interest Rate unless (a) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion on the effective date of such Conversion or (b) the Corporation rescinds its election to convert the interest rate to a Windows Interest Rate in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion;" (2) the proposed effective date of the Windows Interest Rate Period; (3) that the Bonds are subject to mandatory tender for purchase on the proposed Conversion Date and setting forth the Purchase Price and the place of delivery for purchase of the Bonds; and (4) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

Index Floating Rate and Index Floating Rate Period

(A) Determination of Index Floating Rates and Index Floating Rate Periods.

(1) During each Index Floating Rate Period, the Bonds shall bear interest at the Index Floating Rate, which shall be based on the formula for such Index Floating Rate determined by the Remarketing Agent at the start of the Index Floating Rate Period, as set forth in the Indenture and described below. Thereafter, on each Reset Date, the Index Floating Rate shall be determined by the Trustee for the period commencing on the day immediately following the Reset Date and ending on the following Reset Date. The first Index Floating Rate for each Index Floating Rate Period shall apply to the period commencing on the first day of such Index Floating Rate Period and ending on the first Reset

Date, and, thereafter, each Index Floating Rate shall apply to the period commencing on the day immediately following the Reset Date and ending on and including the following Reset Date.

(2) The Index Floating Rate shall be the rate of interest equal to the sum of a percentage of the Index chosen by the Corporation not later than the second Business Day preceding the 15th day prior to the Conversion Date and a spread, to be determined by the Remarketing Agent not later than the day prior to the Conversion Date, that will result in the Remarketing Agent selling the Bonds on the Conversion Date at a price (without regard to accrued interest) equal to the principal amount thereof. Thereafter, the Trustee shall determine the Index Floating Rate for the Bonds on each Reset Date based on the Index and spread for the Bonds.

(3) If, by the second Business Day preceding the 15th day prior to the last day of any Index Floating Rate Period which ends on a day other than the day immediately preceding the Maturity Date, the Trustee shall not have received notice of the Corporation's election that, during the next succeeding Interest Rate Period, the Bonds shall bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate, a Windows Interest Rate, Commercial Paper Rates or an Index Floating Rate, the next succeeding Interest Rate Period shall be a Weekly Interest Rate Period; provided, however, that the interest rate borne by the Bonds shall be the Maximum Interest Rate until such time as the interest rate on the Bonds shall be converted to a Daily Interest Rate, a Long-Term Interest Rate, a Windows Interest Rate, Commercial Paper Rates or an Index Floating Rate, as provided in the Indenture.

(B) Conversion to or Continuation of Index Floating Rate Period. Subject to compliance with the provisions of the Indenture, including the provisions described below under the caption "Rescission of Conversion Notice; Conditions to Conversion," the Corporation may at any time elect that the Bonds shall bear interest at an Index Floating Rate by delivering a written direction to the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Remarketing Agent (if any). The direction of the Corporation shall specify: (1) the proposed effective date of the Index Floating Rate Period, which shall be (a) in each case, a Business Day not earlier than the 15th day following the second Business Day after receipt by the Trustee of such direction, and (b) in addition (i) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period, (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the Bonds would otherwise be subject to optional redemption pursuant to the Indenture if such Conversion did not occur, and (iii) in the case of the establishment of another Index Floating Rate Period to immediately follow an existing Index Floating Rate Period, a Business Day on or after the Par Call Date; (2) the Purchase Date, which shall be the proposed Conversion Date to an (or establishment of another) Index Floating Rate Period; (3) the length of the Index Floating Rate Period; and (4) the Index to be used to calculate the Index Floating Rate for such Index Floating Rate Period. In addition, such direction shall be accompanied by (i) a letter of Bond Counsel that it expects to be able to give a Favorable Opinion of Bond Counsel on the Conversion Date and (ii) a form of the notice to be to the Holders of the Bonds by the Trustee. In addition, such direction shall include the Par Call Date to be applicable for the Index Floating Rate Period, and, if such Par Call Date is other than the date that is six months prior to the end of the Index Floating Rate Period, the Corporation's direction shall be accompanied by a Favorable Opinion of Bond Counsel.

(C) Notice of Conversion to Index Floating Rate or Continuation of Index Floating Rate Period. The Trustee shall give notice by first-class mail of a Conversion of the interest rate on the Bonds to an Index Floating Rate or the establishment of another Index Floating Rate Period to immediately follow an existing Index Floating Rate Period to the Holders of the Bonds not less than 10 days prior to the proposed effective date of such Index Floating Rate Period. Such notice shall state or include, as applicable: (1) that the interest rate shall be converted to, or continue to be, an Index Floating Rate unless

(a) Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion on the effective date of such Conversion or (b) the Corporation rescinds its election to convert the interest rate to an Index Floating in accordance with the provisions of the Indenture described below under the caption "Rescission of Conversion Notice; Conditions to Conversion;" (2) the proposed effective date of such Index Floating Rate Period; (3) that the Bonds are subject to mandatory tender for purchase on such proposed Conversion Date, regardless of whether any or all conditions to the Conversion are met, and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds; and (4) the information required pursuant to the provisions of the Indenture described below under the caption "Notices of Mandatory Tender."

Maximum Rate or Alternative Rate to Apply Under Certain Circumstances

Notwithstanding anything in the Indenture to the contrary, if the Bonds are bearing interest at a Weekly Interest Rate, a Daily Interest Rate or Commercial Paper Rates and the Remarketing Agent (i) is removed and no successor has been appointed as of the effective date of such removal, then the Bonds shall bear interest at the Maximum Interest Rate until a successor Remarketing Agent has been appointed and begins determining the Weekly Interest Rate, Daily Interest Rate or Commercial Paper Rates or (ii) resigns and no successor has been appointed as of the effective date of such resignation, then the Bonds shall bear interest at 110% of SIFMA Index or if such SIFMA Index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate, Daily Interest Rate or Commercial Paper Rate would otherwise be determined. Notwithstanding anything in the Indenture to the contrary, if the Bonds are bearing interest at a Two-Day Interest Rate and the Remarketing Agent (i) is removed and no successor has been appointed as of the effective date of such removal, then the Bonds shall bear interest at the Maximum Rate until a successor Remarketing Agent has been appointed and begins determining the Two-Day Interest Rate or (ii) resigns and no successor has been appointed as of the effective date of such resignation, then the Bonds shall bear interest at a rate equal to the SIFMA Index multiplied by the SIFMA Percentage or, if the SIFMA Index or the SIFMA Percentage is unavailable, the One Month LIBOR Rate multiplied by the LIBOR Percentage or, if the One Month LIBOR Rate or the LIBOR Percentage is unavailable, the Applicable Percentage of the SIFMA Index or, if the SIFMA Index or the Applicable Percentage is unavailable, 90% of the 30-day Treasury rate on the day such Two-Day Interest Rate would otherwise be determined.

Rescission of Conversion Notice; Conditions to Conversion

(A) Notwithstanding anything in the Indenture to the contrary, in connection with any Conversion, the Corporation shall have the right to rescind its election to make such Conversion by delivering a notice of rescission on or prior to 10:00 a.m., New York City time on the second Business Day preceding the effective date of any such Conversion, such notice of rescission to be delivered to the Trustee, the Remarketing Agent (if any), the Credit Facility Provider (if any), the Liquidity Facility Provider (if any), and the Authority. If the Corporation rescinds its election to make such Conversion of the Bonds, then the Bonds shall bear interest at a Weekly Interest Rate commencing on the date which would have been the effective date of the Conversion; provided, however, that if the Bonds were in a Daily Interest Rate Period, a Two-Day Interest Rate Period or a Windows Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate, Two-Day Interest Rate or the Windows Interest Rate, as applicable, as in effect immediately prior to such proposed Conversion; and, provided further that if the Bonds were in an Index Floating Rate Period immediately prior to such proposed Conversion, then the Bonds shall be bear interest at the Maximum Interest Rate until converted into another Interest Rate Period. If the Bonds were in a Windows Interest Rate Period immediately prior to such proposed Conversion, the Trustee shall give notice of the rescission by Electronic Means as soon as practicable and in any event not later than the next

succeeding Business Day to the Holders thereof. In any event, if notice of a Conversion has been mailed to the Holders as provided in the Indenture and the Corporation rescinds its election to make such Conversion, then the Bonds (except any Bonds in a Windows Interest Rate Period) shall continue to be subject to mandatory tender for purchase on the date which would have been the Conversion Date, as provided in the Indenture. If the Bonds are in a Windows Interest Rate Period immediately prior to such proposed Conversion Date and sufficient remarketing proceeds are not available for the purchase of the Bonds on the proposed Conversion Date, then notwithstanding any other provision of the Indenture to the contrary, the Corporation shall be deemed to have rescinded its election to make such Conversion.

(B) No Conversion from one Interest Rate Period to another shall take effect under the Indenture unless each of the following conditions, to the extent applicable, shall have been satisfied:

(i) The Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(ii) In the case of any Conversion with respect to which there shall be no Liquidity Facility in effect to provide funds for the purchase of Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date shall not be less than the amount required to purchase all of the Bonds at the Purchase Price (unless the Corporation elects to transfer to the Trustee the amount of such deficiency on or before the Conversion Date).

(iii) Any Conversion shall be with respect to all of the Bonds.

(iv) In the case of any Conversion from a Long-Term Interest Rate Period to any other Interest Rate Period (except a Long-Term Interest Rate Period or an Index Floating Rate Period effective to the Maturity Date), prior to the Conversion Date, the Corporation shall have appointed a Remarketing Agent.

(C) If any condition to the Conversion of the Bonds set forth above shall not have been satisfied, then the Bonds shall bear interest at a Weekly Interest Rate commencing on the date which would have been the Conversion Date; unless the Bonds were in a Daily Interest Rate Period, a Two-Day Interest Rate Period or Windows Interest Rate Period immediately prior to such proposed Conversion. If the Bonds were in a Daily Interest Rate Period, a Two-Day Interest Rate Period or Windows Interest Rate Period immediately prior to such proposed Conversion, then the Bonds shall continue to bear interest at the Daily Interest Rate, Two-Day Interest Rate or Windows Interest Rate as in effect immediately prior to such proposed Conversion. If the Bonds were in an Index Floating Rate Period immediately prior to such proposed Conversion, the Bonds shall bear interest at the Maximum Interest Rate until converted into another Interest Rate Period. The Bonds (except the Bonds in a Windows Interest Rate Period) shall continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion.

(D) Notwithstanding the provisions of clause (B) or (C) above, if the Bonds would have been subject to mandatory purchase pursuant to the Indenture on a proposed Conversion Date regardless of the Corporation's election to convert the Bonds to a new Interest Rate Period, the Bonds shall continue to be subject to mandatory purchase pursuant to the applicable provisions of the Indenture notwithstanding failure to satisfy the conditions precedent to a change in Interest Rate Period or failure to have adequate remarketing proceeds available on the proposed Conversion date, and failure to pay the Purchase Price of the Bonds shall constitute an Event of Default pursuant to the provisions of the Indenture, except as is otherwise provided in the Indenture with respect to Bonds in a Windows Interest Rate Period.

Redemption Provisions

Terms of Redemption

(A) The Bonds are subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon Request of the Corporation given to the Trustee at least 25 days prior to the date fixed for redemption (unless a lesser number of days shall be acceptable to the Trustee, in the sole discretion of the Trustee) in whole or in part on any date, from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members and deposited in the Redemption Fund, at a Redemption Price equal to the principal amount thereof, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time when there is a Credit Facility in effect.

(B) While any Weekly Interest Rate, Daily Interest Rate or Two-Day Interest Rate is in effect, the Bonds are also subject to optional redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon Request of the Corporation given to the Trustee at least 25 days prior to the date fixed for redemption (unless a lesser number of days shall be acceptable to the Trustee, in the sole discretion of the Trustee), in whole or in part (in such amounts as may be specified by the Corporation), on any date at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time when there is a Credit Facility in effect.

(C) Whenever any Index Floating Rate Period is in effect, the Bonds shall not be subject to optional redemption prior to the Par Call Date. Such Bonds are subject to redemption prior to their stated maturity at the option of the Authority (which option shall be exercised upon Request of the Corporation given to the Trustee at least 25 days prior to the date fixed for redemption), in whole or in part, in such amounts as may be specified by the Corporation, on any Business Day on or after the Par Call Date, at the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time when there is a Credit Facility in effect.

(D) Whenever any Windows Interest Rate Period is in effect, the Bonds shall be subject to optional redemption prior to their stated maturity at the option of the Authority (which option shall be exercised upon the Request of the Corporation given to the Trustee (unless waived by the Trustee in his sole discretion) at least 25 days prior to the date fixed for redemption (unless a lesser number of days shall be acceptable to the Trustee, in the sole discretion of the Trustee), in whole or in part (in such amounts as may be specified by the Corporation) on any Business Day at a price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, but only with Available Moneys at any time when there is a Credit Facility in effect.

(E) While any Long-Term Interest Rate is in effect, the Bonds are also subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon Request of the Corporation given to the Trustee at least 25 days prior to the date fixed for redemption (unless a lesser number of days shall be acceptable to the Trustee, in the sole discretion of the Trustee), in whole or in part, but only with Available Moneys at any time when there is a Credit Facility in effect, (1) on any date the Bonds are subject to mandatory tender pursuant to the provisions of the Indenture described below under the caption "Mandatory Tender for Purchase on First Day of Each Interest Rate Period" at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium, and (2) during the periods specified

below, in whole or in part on any date, at the Redemption Prices (expressed as a percentage of principal amount) hereinafter indicated, plus accrued interest thereon (if any) to the date fixed for redemption:

Length of Long-Term Interest Rate Period (expressed in years)	Redemption Price
greater than 10	after 10 years at 100%
less than or equal to 10	not subject to optional redemption

Notwithstanding the foregoing or any other provision of the Indenture to the contrary, if the Corporation delivers to the Trustee, the Remarketing Agent, and the Authority on or prior to any Conversion Date to the Long-Term Interest Rate a notice containing an alternative redemption schedule setting forth different dates on which, or different redemption prices at which, the Bonds may be redeemed while the Long-Term Interest Rate is in effect, then during such Long-Term Interest Rate Period such alternative redemption schedule shall apply to the redemption of the Bonds, provided that a Favorable Opinion of Bond Counsel is attached to such notice.

(F) While any Commercial Paper Rate is in effect, Bonds subject to such Commercial Paper Rate are also subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised upon Request of the Corporation given to the Trustee at least 25 days prior to the date fixed for redemption (unless a lesser number of days shall be acceptable to the Trustee, in the sole discretion of the Trustee), in whole or in part (in such amounts as may be specified by the Corporation), on the day succeeding the last day of such Commercial Paper Period at a Redemption Price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon (if any) to the date fixed for redemption, without premium but only with Available Moneys at any time when there is a Credit Facility in effect.

(G) The Bonds are also subject to redemption in part prior to their stated maturity from Sinking Fund Installments established pursuant to the Indenture on any Sinking Fund Installment Date.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee shall select the Bonds to be redeemed from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair; provided, however, that Bonds shall be redeemed in the following order of priority (and by lot within each priority):

FIRST: Any Bonds which are Liquidity Facility Bonds; and

SECOND: Any other Bonds.

Notice of Redemption. Notice of redemption shall be given by the Trustee by first class mail, postage prepaid, not less than 20 days, nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption shall be dated, shall identify the Bonds to be redeemed, shall state: (i) the date of issue of the Bonds; (ii) the redemption date; (iii) the Redemption Price; (iv) the place or places where the Bonds being redeemed shall be surrendered for payment of the Redemption Price (including the name and appropriate address or addresses of the Trustee); (v) the maturity date of the Bonds being redeemed; (vi) the CUSIP numbers, if any, and, in the case of 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 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 Trustee specified in the redemption notice.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Corporation, for and on behalf of the Authority. A copy of any notice of redemption with respect to the Bonds shall also be given by the Trustee to the Authority and the Master Trustee.

Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any 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 Trustee to mail notice of redemption to the Authority or the Master Trustee shall not affect the validity or sufficiency of the proceedings for redemption.

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

Any notice of redemption (other than a notice given in connection with a Sinking Fund Installment redemption) may be rescinded by written notice given to the Trustee by the Corporation no later than 4 Business Days prior to the date specified for redemption. The 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.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute (but need not prepare) and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of Minimum Authorized Denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Bond 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 redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date 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 together with interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture and the Holders of said 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 Trustee for such payment.

Purchase in Lieu of Redemption. While the Bonds are in a Long-Term Interest Rate Period, each Holder or Beneficial Owner, 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 pursuant to the provisions of the Indenture described above under the caption "Redemption of Bonds." Such Bond is to be purchased at a Purchase Price equal to the then applicable Redemption Price of such Bond. The Corporation shall deliver a Favorable Opinion of Bond Counsel, and shall direct the Trustee to provide notice of mandatory purchase in lieu of redemption, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture described above under the caption "Notice of Redemption" and to select Bonds subject to mandatory purchase in the same manner as Bonds called for redemption pursuant to the provisions of the Indenture described above under the caption "Selection of Bonds for Redemption." On the date fixed for purchase of any Bond in lieu of redemption in accordance with the provisions of the Indenture described herein, the Corporation shall pay the Purchase Price of such Bond to the Trustee in immediately available funds, and the Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption shall operate to extinguish the indebtedness of the Corporation evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase in lieu of redemption. The Corporation may exercise its option to purchase Bonds, in whole or in part, in accordance with the provisions of the Indenture described herein and may rescind any notice of mandatory purchase delivered pursuant to the provisions of the Indenture described herein at any time on or prior to date of mandatory purchase specified in the notice of mandatory purchase delivered pursuant to the provisions of the Indenture described herein.

Optional Tender Provisions

(A) **Weekly Interest Rate Period.** During any Weekly Interest Rate Period, any Eligible Bond shall be purchased from its Holder at the option of the Holder on any Business Day at a Purchase Price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Payment Date in which case at a Purchase Price equal to the principal amount thereof, payable in immediately available funds, upon delivery to the Trustee at its Principal Office and to the Remarketing Agent of an irrevocable written notice which states the name, the principal amount and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee. Any notice delivered to the Trustee after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. For payment of such Purchase Price on the date specified in such notice, such Bond must be delivered, at or prior to 10:00 a.m., New York City time, on the date specified in such notice, to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, 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.

(B) **Daily Interest Rate Period.** During any Daily Interest Rate Period, any Eligible Bond shall be purchased from its Holder at the option of the Holder on any Business Day at a Purchase Price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Payment Date in which case at a Purchase Price equal to the principal amount thereof, payable in immediately available funds, upon delivery to the Trustee at its Principal Office and to the Remarketing Agent, by no later than 11:00 a.m., New York City time, on such Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy or other writing, which states the principal amount of the Bonds to be purchased and the date of purchase. For payment of such Purchase Price on the date specified in the Holder notice, the Bonds must be delivered, at or prior to 12:00 noon New York City time, on such Business Day, to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to such Trustee, executed in blank by the Holder thereof or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange.

(C) **Two-Day Interest Rate Period.** During any Two-Day Interest Rate Period, any Eligible Bond shall be purchased from its Holder at the option of the Holder on any Business Day at a Purchase Price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase shall be an Interest Payment Date in which case at a Purchase Price equal to the principal amount thereof, payable in immediately available funds, upon delivery to the Trustee at its Principal Office and to the Remarketing Agent, by no later than 4:00 p.m. New York City time on a Business Day, of an irrevocable written notice or an irrevocable telephonic notice, promptly confirmed by telecopy or other writing, which states the principal amount of such Bond to be purchased and the date on which the same shall be purchased, which date shall be a Business Day not less than two (2) Business Days after the date of the delivery of such notice to the Trustee. Any notice delivered to the Trustee after 4:00 p.m. New York City time shall be deemed to have been received on the next succeeding Business Day. For payment of the Purchase Price on the Purchase Date, such Bond must be delivered at or prior to 10:00 a.m. New York City time on the Purchase Date to the Trustee at its Principal Office accompanied by an instrument of transfer, in form satisfactory to the Trustee executed in blank by the Holder or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

(D) **Windows Interest Rate Period.**

(1) During any Windows Interest Rate Period, any Eligible Bond shall be purchased from its Holder at the option of its Holder upon delivery of an irrevocable written notice (a "Windows Optional Tender Notice") to the Trustee at its Principal Office on any Business Day. A Windows Optional Tender Notice shall state or include, as applicable the principal amount of such Bond and the principal amount thereof to be purchased. The giving of a Windows Optional Tender Notice by a Bondholder or Participant shall constitute the irrevocable tender for purchase of such Bond on the Purchase Date for such Bond, if any, designated by the Remarketing Agent pursuant to the Indenture (a "Windows Optional Tender Date"), regardless of whether such Bond is delivered to the Trustee for purchase on such Tender Date.

(2) If the Remarketing Agent identifies a purchaser for such Bond during the period beginning on the Business Day such Windows Optional Tender Notice is received by the Remarketing Agent from the Trustee and ending on the 30th day (or, if the 30th day is not a Business Day, the next succeeding Business Day) after such Windows Option Tender Notice is received by the Remarketing Agent (a "Remarketing Window"), the Remarketing Agent shall give notice by Electronic Means to the

tendering Bondholder or Participant, the Trustee, the Authority and the Corporation that a purchaser has been identified. Such notice shall designate the Windows Optional Tender Date for such Bond, which shall be the last day of the Remarketing Window or any Business Day that is at least seven days after such notice is received by the tendering Bondholder or Participant.

(3) The Trustee shall purchase such Bond pursuant to the provisions of the Indenture described below under the caption "General Provisions Relating to Tenders" on the Windows Optional Tender Date at the Purchase Price, but only with remarketing proceeds on deposit in the Remarketing Proceeds Account as described below under the caption "General Provisions Relating to Tenders." If sufficient remarketing proceeds are not available for the purchase of such Bond on the Windows Optional Tender Date, then the Remarketing Agent's designation of a Purchase Date for such Bond shall be deemed to be rescinded, such Bond shall not be tendered or deemed tendered or required to be purchased on such date and no Event of Default shall occur pursuant to the Indenture. The Remarketing Agent shall give notice of such rescission by Electronic Means to the tendering Bondholder or Participant, the Trustee, the Authority and the Corporation as soon as practicable and in any event not later than the next succeeding Business Day.

(4) For payment of the Purchase Price on the Windows Optional Tender Date, if the Windows Optional Tender Notice was given by a Bondholder, such Bond must be delivered at or prior to 10:00 a.m., New York City time, on the Windows Optional Tender Date to the Trustee at its Principal Office, accompanied by an instrument of transfer, in form satisfactory to the Trustee executed in blank by the Bondholder or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange. If the Windows Optional Tender Notice was given by a Participant, upon confirmation by the Depository to the Trustee that such Participant has an ownership interest in the Bonds at least equal to the amount of Bonds specified in such irrevocable written notice, payment of the Purchase Price of such Bond shall be made by 3:00 p.m., New York City time, or as soon as practicably possible thereafter, upon the receipt by the Trustee of the Purchase Price on the Business Day specified in the notice upon the transfer on the registration books of the Securities Depository of the beneficial ownership interest in such Bond tendered for purchase to the account of the Trustee, or a Participant acting on behalf of such Trustee, at or prior to 10:00 a.m., New York City time, on the date specified in such notice.

Mandatory Tender Provisions

Mandatory Tender for Purchase On Day Next Succeeding the Last Day of Each Commercial Paper Period. On the day next succeeding the last day of each Commercial Paper Period for an Eligible Bond in a Short-Term Interest Rate Period, unless such day is the first day of a new Interest Rate Period for such Bond (in which event such Bond shall be subject to mandatory purchase pursuant to the provisions of the Indenture described below under the caption "Mandatory Tender on First Day of Each Interest Period), such Bond shall be purchased from its Holder at the Purchase Price payable in immediately available funds, if such Bond is delivered to the Trustee on or prior to 10:00 a.m., New York City time, on such day, or if delivered after 10:00 a.m., New York City time, on the next succeeding Business Day; provided, however, that in any event such Bond will not bear interest at the Commercial Paper Rate after the last day of each Commercial Paper Period. The Purchase Price of any Bond so purchased shall be payable only upon surrender of such Bond to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, 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.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. Eligible Bonds shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period and the first

day of each succeeding Long-Term Interest Rate Period or Index Floating Rate Period, or on the day which would have been the first day of an Interest Rate Period had one of the events specified in the Indenture not occurred which resulted in the interest rate not being converted, at the Purchase Price, payable in immediately available funds. The Purchase Price of any Bond so purchased shall be payable only upon surrender of such Bond to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to such Trustee, 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 at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in the Indenture.

Mandatory Tender Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender. If at any time (i) the Bonds will cease to be subject to purchase pursuant to the Self-Liquidity Arrangement, Liquidity Facility or Credit Facility then in effect as a result of the termination, replacement or expiration of the term, as extended, of such existing facility, including, but not limited to, termination at the option of the Corporation, or (ii) the Trustee receives notice of the occurrence of a Mandatory Credit/Liquidity Tender, then the Bonds shall be subject to mandatory tender for purchase at the Purchase Price.

Any purchase of Bonds pursuant to the provisions of the Indenture described under this caption shall occur: (1) on the proposed date of the replacement of a Self-Liquidity Arrangement, Liquidity Facility or Credit Facility then in effect, in any case where a Liquidity Facility or an Alternate Liquidity Facility is to be delivered to the Trustee as provided in the Loan Agreement, a Self-Liquidity Arrangement is to become effective as provided in the Loan Agreement, or a Credit Facility or an Alternate Credit Facility is to be delivered to the Trustee as provided in the Loan Agreement; or (2) on the fifth Business Day preceding any such expiration or termination of a Liquidity Facility or a Credit Facility without replacement, or on the fifth Business Day following receipt by the Trustee of notice from the Credit Facility Provider or Liquidity Facility Provider of a Mandatory Credit/Liquidity Tender, but in no event later than the second Business Day preceding any expiration of an existing Credit Facility or Liquidity Facility. In the case of any replacement of an existing Self-Liquidity Arrangement, Liquidity Facility or Credit Facility, the existing Self-Liquidity Arrangement, Liquidity Facility, or Credit Facility, as applicable, will be drawn upon to pay the Purchase Price, if necessary, rather than the replacement facility, and the then-existing facility shall not be surrendered or otherwise terminated by the Trustee until after such drawing is honored. In the event a Liquidity Facility or Credit Facility being replaced fails to honor a conforming draw, no mandatory tender will be effected pursuant to the provisions of the Indenture described under this caption. The Purchase Price of any Bonds purchased pursuant to the provisions of the Indenture described under this caption shall be payable only upon surrender of such Bond to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, 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, at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in a notice provided to the Holders by the Trustee.

Notwithstanding any other provision of this Indenture to the contrary, the assignment of a Liquidity Facility which relieves the Liquidity Provider of its obligation to purchase Bonds shall be considered a replacement for purposes of the provisions of the Indenture described under this caption.

Mandatory Tender During Windows Interest Rate Period. If for any reason a Bond for which a Windows Optional Tender Notice has been delivered pursuant to the provisions of the Indenture described above under the caption "Optional Tender - Window Interest Rate Period" is not purchased by the last day of the Remarketing Window, then (i) the Bonds bearing interest at a Windows Interest Rate shall be subject to mandatory tender for purchase on the last day of the Mandatory Tender Window (or, if

the last day is not a Business Day, the next succeeding Business Day) after such Windows Optional Tender Notice is received by the Remarketing Agent (a "Windows Mandatory Tender Date") at the Purchase Price, payable in immediately available funds, and (ii) the Remarketing Agent shall give notice of such Windows Mandatory Tender Date to the Trustee by Electronic Means not later than the second Business Day after the end of the Remarketing Window. For payment of the Purchase Price on the Windows Mandatory Tender Date, Bonds must be delivered at or prior to 10:00 a.m., New York City time, on the Windows Mandatory Tender Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding Business Day. The Purchase Price shall be payable only upon surrender of the Bonds to the Trustee at its Principal Office, accompanied by an instrument of transfer, in form satisfactory to the Trustee, executed in blank by the Bondholder or its duly authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange. The failure to pay the Purchase Price of all tendered Bonds when due and payable on a Windows Mandatory Tender Date shall constitute an Event of Default pursuant to the Indenture. Notwithstanding the foregoing, the Bonds shall not be subject to mandatory tender for purchase on a Windows Mandatory Tender Date if the Bonds are otherwise subject to mandatory tender for purchase after the last day of the Remarketing Window and before such Windows Mandatory Tender Date.

Mandatory Tender for Purchase at the Direction of the Corporation. During any Daily Interest Rate Period, Weekly Interest Rate Period, Two-Day Interest Rate Period or Windows Interest Rate Period, or after the Par Call Date in any Index Floating Rate Period, the Bonds are subject to mandatory tender for purchase on any Business Day designated by the Corporation, with the prior written consent of the Liquidity Facility Provider (if any), at the Purchase Price, payable in immediately available funds. Such purchase date shall be a Business Day not earlier than the 10th day following the second Business Day after receipt by the Trustee of such designation of the Corporation. For payment of the Purchase Price on such Purchase Date, Bonds must be delivered at or prior to 10:00 a.m. on the Purchase Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding Business Day. The Purchase Price shall be payable only upon surrender of the Bonds to the Trustee at its Principal Office, accompanied by an instrument of transfer, in form satisfactory to the Trustee, 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

General Provisions Relating to Tenders

(A) **Creation of Bond Purchase Fund.** There shall be created and established with the Trustee a fund to be designated the "Bond Purchase Fund" to be held in trust only for the benefit of the Holders of tendered Bonds who shall thereafter be restricted exclusively to the moneys held in such fund for the satisfaction of any claim for the Purchase Price of such tendered Bonds.

There shall be created and designated the following accounts within the Bond Purchase Fund: the "Remarketing Proceeds Account," the "Liquidity Facility Account" and the "Corporation Purchase Account." Moneys paid to the Trustee for the purchase of tendered or deemed tendered Bonds received from (i) the Remarketing Agent shall be deposited in the Remarketing Proceeds Account established in accordance with the provisions of the Indenture, (ii) payments pursuant to the Liquidity Facility, if any, shall be deposited in the Liquidity Facility Account established in accordance with the provisions of the Indenture, and (iii) the Corporation or any other Member shall be deposited in the Corporation Purchase Account established in accordance with the provisions of the Indenture. Moneys provided from payments made under a Liquidity Facility (if any) not required to be used in connection with the purchase of tendered Bonds shall be returned to the Liquidity Facility Provider in accordance with the Indenture. Moneys provided by the Corporation or other Member not required to be used in connection with the purchase of tendered Bonds shall be returned to the Corporation in accordance with the Indenture.

Moneys in the Liquidity Facility Account, Corporation Purchase Account and Remarketing Proceeds Account shall not be commingled with other funds held by the Trustee and shall remain uninvested.

Neither the Corporation nor the Authority shall have any right, title or interest in any of the funds held on deposit in the Remarketing Proceeds Account or the Liquidity Facility Account nor any remarketing proceeds held for any period of time by the Remarketing Agent.

(B) **Deposit of Bonds.** The Trustee agrees to hold all Bonds delivered to it pursuant to of the provisions of the Indenture described under the captions "Optional Tender Provisions" and "Mandatory Tender Provisions" in trust for the benefit of the respective Holders which shall have so delivered the Bonds until moneys representing the Purchase Price of the Bonds have been delivered to such Holder in accordance with the provisions of the Indenture and until the Bonds shall have been delivered by the Trustee in accordance with the provisions of the Indenture described below under the caption "Delivery of Purchased Bonds" .

(C) **Remarketing of Bonds.**

(i) Immediately upon its receipt of a notice of optional tender from a Holder, but not later than (1) 12:00 noon, New York City time, on the following Business Day in the case of a Bond bearing interest at a Weekly Interest Rate or a Windows Interest Rate, (2) 11:15 a.m., New York City time, on the day of receipt of such notice in the case of a Bond bearing interest at a Daily Interest Rate, or (3) 4:30 p.m., New York City time, on the same Business Day in the case of a Bond bearing interest at a Two-Day Interest Rate, the Trustee shall notify the Remarketing Agent, the Liquidity Facility Provider (if any), and the Corporation by Electronic Means of such receipt, specifying the principal amount of Bonds for which it has received a notice pursuant to the Indenture, the names of the Holders thereof and the date on which the Bonds are to be purchased.

(ii) As soon as practicable, but in no event later than 11:30 a.m., New York City time, on the Purchase Date in the case of Bonds in a Daily Interest Rate Period or Bonds subject to mandatory tender for purchase on the day next succeeding the last day of each Commercial Paper Period and by no later than 4:00 p.m., New York City time, on the last Business Day prior to the Purchase Date in the case of Bonds in a Weekly Interest Rate Period, Bonds in a Two-Day Interest Rate Period, Bonds in a Windows Interest Rate Period, and Bonds subject to mandatory tender pursuant to any mandatory tender provision other than mandatory tender for purchase on the day next succeeding the last day of each Commercial Paper Period, the Remarketing Agent shall inform the Trustee by Electronic Means of the principal amount of Purchased Bonds for which the Remarketing Agent has identified prospective purchasers and of the name, address and taxpayer identification number of each such purchaser, the principal amount of Purchased Bonds to be purchased and the Minimum Authorized Denominations in which such Purchased Bonds are to be delivered. Upon receipt from the Remarketing Agent of such information, the Trustee shall prepare Purchased Bonds in accordance with such information received from the Remarketing Agent for the registration of transfer and redelivery to the Remarketing Agent.

(iii) Any Purchased Bonds which are subject to mandatory tender for purchase in accordance with the provisions of the Indenture which are not presented to the Trustee on the Purchase Date and any Purchased Bonds which are the subject of a notice of optional tender delivered pursuant to the provisions of the Indenture which are not presented to the Trustee on the Purchase Date, shall, in accordance with the provisions of the Indenture, described below under the caption "Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds," be deemed

to have been purchased upon the deposit of moneys equal to the Purchase Price thereof into any or all of the accounts of the Bond Purchase Fund.

(D) Deposits of Funds

(i) The Remarketing Agent shall transfer, or to cause to be transferred, to the Trustee the proceeds derived by the Remarketing Agent from remarketing of Bonds pursuant to the provisions of the Indenture described above under the caption "Remarketing of Bonds," against delivery of remarketed Bonds, in immediately available funds by 11:45 a.m. (New York City time) on the Purchase Date for deposit in the Remarketing Proceeds Account. The Trustee shall deposit into the Remarketing Proceeds Account any amounts received by it from the Remarketing Agent against receipt of Bonds by the Remarketing Agent pursuant to the provisions of the Indenture described under the caption "Delivery of Purchased Bonds" and on account of Purchased Bonds remarketed pursuant to the terms of the Remarketing Agreement.

(ii) If a Liquidity Facility is in effect with respect to the Purchased Bonds, the Trustee shall, prior to 12:00 p.m. New York City time, on the Purchase Date, present drafts for payment or otherwise request amounts under the Liquidity Facility, in accordance with its terms, in an amount equal to the Funding Amount, so that payment is received under the Liquidity Facility at or before 2:30 p.m., New York City time.

(iii) By 12:00 p.m., New York City time, on the Purchase Date, the Trustee shall also notify the Corporation by telephone, promptly confirmed in writing, or by telecopy, of the Funding Amount. If a Liquidity Facility is in effect, the Trustee shall also notify the Corporation, by 2:30 p.m., New York City time, on the Purchase Date of any failure by the Liquidity Facility Provider to provide funds under the Liquidity Facility in an amount equal to the Funding Amount by such time.

(iv) The Corporation has agreed in the Loan Agreement and in Obligation No. 32 to pay to the Trustee in immediately available funds the Funding Amount by 2:45 p.m., New York City time, (a) if a Liquidity Facility is not in effect with respect to the Purchased Bonds, (b) if the Liquidity Facility Provider (if any) has not paid the full amount required by subclause (ii) above at the times required therein, or (c) if the Bonds bear a Long-Term Interest Rate. The Trustee shall deposit such amounts into the Corporation Purchase Account.

(v) The Trustee shall hold all proceeds received from the Remarketing Agent, the Liquidity Facility Provider (if any) or the Corporation pursuant to the Indenture in trust for the tendering Bondholders. In holding such proceeds and moneys, the Trustee will be acting on behalf of such Bondholders by facilitating purchase of the Bonds and not on behalf of the Authority, any Liquidity Facility Provider, or the Corporation and will not be subject to the control of any of them. Subject to the provisions of the Indenture, following the discharge of the lien created by the Indenture or after payment in full of the Bonds, the Trustee shall pay any moneys remaining in any account of the Bond Purchase Fund directly to the Persons for whom such money is held upon presentation of evidence reasonably satisfactory to the Trustee that such Person is rightfully entitled to such money and the Trustee shall not pay such amounts to any other Person.

(E) Disbursements; Payment of Purchase Price. Moneys delivered to the Trustee on a Purchase Date shall be applied at or before 3:30 p.m., New York City time, on such Purchase Date to pay the Purchase Price of Purchased Bonds in immediately available funds as follows in the indicated order of application:

FIRST: Moneys deposited in the Remarketing Proceeds Account.

SECOND: Moneys deposited in the Liquidity Facility Account.

THIRD: Moneys deposited in the Corporation Purchase Account.

Any moneys held by the Trustee in the Corporation Purchase Account remaining unclaimed by the Holders of the Purchased Bonds which were to have been purchased for 3 years after the respective Purchase Date for the Bonds shall be paid, upon the written request of the Corporation to the Corporation, against written receipt therefor. The Holders of Purchased Bonds who have not yet claimed money in respect of the Bonds shall thereafter be entitled to look only to the Trustee, to the extent it shall hold moneys on deposit in the Bond Purchase Fund or the Corporation to the extent moneys have been transferred to the Corporation in accordance with the provisions of the Indenture described herein.

(F) Delivery of Purchased Bonds

(i) The Remarketing Agent shall give telephonic or telegraphic notice, promptly confirmed by a written notice, to the Trustee on each date on which Bonds shall have been purchased pursuant to the Indenture, specifying the principal amount of the Bonds, if any, sold by it pursuant to the provisions of the Indenture described under the caption "Remarketing of Bonds," along with a list of such purchasers showing the names and Authorized Minimum Denominations in which the Bonds shall be registered, and the addresses and social security or taxpayer identification numbers of such purchasers. By 1:30 p.m., New York City time, on the Purchase Date, a principal amount of Bonds equal to the amount of Purchased Bonds purchased with moneys from the Remarketing Proceeds Account shall be made available by the Trustee to the Remarketing Agent. The Trustee shall prepare each Bond to be so delivered in such names as directed by the Remarketing Agent pursuant to the provisions of the Indenture described above under the caption "Remarketing of Bonds."

(ii) A principal amount of Bonds equal to the amount of Purchased Bonds purchased from moneys on deposit in the Liquidity Facility Account shall be delivered on the day of purchase by the Trustee to or as directed by the Liquidity Facility Provider. The Trustee shall register the Bonds in the name of the Liquidity Facility Provider or as otherwise specified in the Liquidity Facility.

(iii) A principal amount of Bonds equal to the amount of Purchased Bonds purchased from moneys on deposit in the Corporation Purchase Account shall be delivered on the day of such purchase by the Trustee to or as directed by the Corporation. The Trustee shall register the Bonds in the name of the Corporation or as otherwise directed by the Corporation.

Notices of Mandatory Tender

(A) In connection with any mandatory tender for purchase of the Bonds on the first day of each interest rate period, the Trustee shall give the notice provided in the Indenture as a part of the notice given in connection with Conversion. Such notice shall state or include, as applicable: (1) 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 Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, 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; (2) that all Bonds so subject to mandatory tender for purchase shall be purchased on the mandatory purchase date which shall be explicitly stated; and (3) that

in the event that any Holder of a Bond so subject to mandatory tender for purchase shall not surrender such Bond to the Trustee 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.

(B) The Trustee shall give notice by first-class mail to the Holders of the Bonds on or before (1) the 10th day preceding the expiration or termination of a Credit Facility or Liquidity Facility in accordance with its terms or the proposed replacement of the Credit Facility or Liquidity Facility and (2) the second Business Day after receipt of a notice of Mandatory Credit/Liquidity Tender. Such notice shall, to the extent applicable, (1) state the date of such expiration, termination or proposed replacement of the Credit Facility or Liquidity Facility or Mandatory Credit/Liquidity Tender, (2) state that the Bonds are subject to mandatory tender for purchase as a result of such expiration, termination or proposed replacement or Mandatory Credit/Liquidity Tender, (3) state the date on which such purchase will occur pursuant to the provisions of the Indenture described above under the caption "Mandatory Tender Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender" and set forth the Purchase Price and the place of delivery for purchase of the Bonds, and (4) provide any other information necessary to effect a mandatory tender for purchase pursuant to the provisions of the Indenture described above under the caption "Mandatory Tender Upon Termination, Substitution or Expiration of Liquidity Facility or Credit Facility; Mandatory Credit/Liquidity Tender." The Trustee shall send a copy of the notice to the Authority, the Corporation, the Remarketing Agent, the Credit Facility Provider (if any) and the Liquidity Facility Provider (if any).

(C) In connection with any mandatory tender pursuant to the provisions of the Indenture described under the caption "Mandatory Tender for Purchase at the Direction of the Corporation," the Trustee shall give notice by first class mail to the Holders of the Bonds not less than 10 days prior to the mandatory tender date.

Irrevocable Notice Deemed to be Tender of Bond; Undelivered Bonds

(A) The giving of notice of optional tender by a Holder of a Bond as provided in the Indenture shall constitute the irrevocable tender for purchase of each such Bond with respect to which such notice shall have been given, regardless of whether such Bond is delivered to the Trustee for purchase on the relevant Purchase Date.

(B) The Trustee may refuse to accept delivery of any Bonds for which a proper instrument of transfer has not been provided; such refusal, however, shall not affect the validity of the purchase of such Bond as described in the Indenture. For purposes of the Indenture, the Trustee shall determine timely and proper delivery of the Bonds and the proper endorsement of the Bonds. Such determination shall be binding on the Holders of the Bonds, the Corporation and the Remarketing Agent, absent manifest error. If any Holder of a Bond who shall have given notice of tender of purchase pursuant to the Indenture or any Holder of a Bond subject to mandatory tender for purchase pursuant to the Indenture shall fail to deliver such Bond to the Trustee at the place and on the applicable date and at the time specified, or shall fail to deliver such Bond properly endorsed, such Bond shall constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available in accordance with the Indenture for payment to the Holder thereof on the date and at the time specified, from and after the date and time of that required delivery: (1) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Indenture; (2) interest shall no longer accrue thereon; and (3) funds in the amount of the Purchase Price of the Undelivered Bond shall be held by the Trustee for such Bond for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of the Undelivered

Bond to the Trustee at its Principal Office. Any funds held by the Trustee as described in clause (3) of the preceding sentence shall be held uninvested.

Remarketing of Bonds; Notice of Interest Rates Set by Remarketing Agent

(A) Upon a mandatory tender or notice of the tender for purchase of Bonds, the Remarketing Agent shall offer for sale and use its best efforts to sell such Bonds, (subject to the requirements of the applicable Remarketing Agreement), any such sale to be made on the date of such purchase in accordance with the provisions of the Indenture described under the caption "Optional Tender Provisions" and under the caption "Mandatory Tender Provisions" at the Purchase Price. When a Liquidity Facility is in effect, the Remarketing Agent agrees that it shall not sell any Bonds offered for sale pursuant to the provisions of the Indenture described under the caption "Optional Tender Provisions" and under the caption "Mandatory Tender Provisions" to the Corporation or any other Member, or to any Person who controls, is controlled by, or is under common control with the Corporation or any other Member or a Person who is otherwise a guarantor of the Loan Repayments.

(B) The Remarketing Agent shall offer for sale and use its best efforts to sell Liquidity Facility Bonds (subject to the requirements of the applicable Remarketing Agreement) at a price equal to the principal amount thereof plus accrued interest to the date of purchase (based on the rate per annum which would have been applicable to such Bonds if they were not Liquidity Facility Bonds). Liquidity Facility Bonds shall not be delivered upon remarketing unless the Trustee shall have received a written confirmation from the Liquidity Facility Provider that the Liquidity Facility is reinstated in accordance with its terms to the full amount of the then Required Stated Amount.

(C) The Remarketing Agent shall determine the rate of interest to be borne by the Bonds during each Interest Rate Period (except any Windows Interest Rate Period or any Index Floating Rate Period) and by each Bond during each Commercial Paper Period for such Bond and the Commercial Paper Periods for each Bond during each Short-Term Interest Rate Period as provided pursuant to the provisions of the Indenture described under the caption "Initial Interest Rate Period; Subsequent Interest Rates" and shall furnish to the Trustee and to the Corporation upon request, in a timely fashion each rate of interest and Commercial Paper Period so determined by Electronic Means.

(D) Anything in the Indenture to the contrary notwithstanding, (i) during the period during which a Liquidity Facility is required to be in effect, if there is no Liquidity Facility in effect, there shall be no remarketing of Bonds tendered or deemed tendered for purchase, and (ii) if an Event of Default shall have occurred and is continuing, there shall be no remarketing of Bonds tendered or deemed tendered for purchase.

Inadequate Funds for Tenders. Except as is otherwise provided with respect to Bonds in the Windows Interest Rate Period, if sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, (1) the failure to pay the Purchase Price of all tendered Bonds when due and payable shall constitute an Event of Default, (2) all tendered Bonds shall be returned by the Trustee to their respective Holders, and (3) all Bonds shall bear interest at the Maximum Interest Rate from the date of such failed purchase until all the Bonds are purchased as required in accordance with the provisions of the Indenture. Any moneys deposited with the Remarketing Agent or transferred to the Trustee with respect to such failed remarketing shall be returned to the party depositing those moneys. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider (if any), the Credit Facility Provider (if any) or the Corporation to effect a subsequent successful remarketing of any tendered Bonds.

Revenues, Funds and Accounts; Payment of Principal and Interest; Credit Facility

Pledge and Assignment; Revenue Fund.

(A) 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 and Purchase Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture and the payment of all Reimbursement Obligations and the performance and observance of the reimbursement and other obligations of the Corporation under the Reimbursement Agreement, all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(B) Pursuant to 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 and for the benefit of the Credit Facility Provider (if any) with respect to the obligations of the Corporation under the Reimbursement Agreement, all of the Revenues and other assets pledged pursuant to the provisions of the Indenture described in clause (A) above and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Additional Payments or Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to receive any amounts paid by the Corporation pursuant to the additional payment provisions and payment of purchase price provisions of the Loan Agreement, (iii) express rights of the Authority to indemnification, or inspection or to receive notices, certificates or opinions, (iv) express rights to give approvals, consents or waivers and (v) the obligation of the Corporation to make deposits pursuant to the Tax Agreement) and Obligation No. 32. 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 shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement and of the Members under Obligation No. 32 other than those rights retained by the Authority. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture.

(C) Except as is otherwise provided in the Indenture with respect to (i) deposits to the Bond Purchase Fund, the Credit Facility Fund, the Rebate Fund and the Redemption Fund and (ii) investment earnings, all Revenues shall be promptly deposited by the Trustee upon receipt thereof in a separate fund designated as the "Revenue Fund" which the Trustee is hereby directed to establish, maintain and hold in trust.

(D) If one (1) Business Day prior to each Interest Payment Date and each principal payment date, including each Sinking Fund Installment Date, the Trustee has not received Revenues sufficient to make the payment of principal of and/or interest on the Bonds due on such Interest Payment Date or principal payment date, the Trustee shall immediately notify the Corporation of such insufficiency by telephone or Electronic Means.

(E) If a Credit Facility is in effect and a Credit Facility Provider fails to honor a draw under a Credit Facility for the purpose of paying principal or interest on the Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, the Trustee shall immediately notify the

Corporation of such failure by telephone or Electronic Means and shall request payment from the Corporation.

Allocation of Revenues. On or before the dates specified below, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: on or before each Interest Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest;

Second: on or before each Sinking Fund Installment Date or, in the event of Conversion of the Bonds to a Long-Term Interest Rate Period which extends to the final Maturity Date of the Bonds, each principal payment date, the amount of the Sinking Fund Installment or principal payment becoming due and payable on such date, until the balance in said account is equal to said amount of such Sinking Fund Installment or principal payment; and

Third: on each date specified in the Tax Agreement, to the Rebate Fund, such amounts as are required to be deposited therein by the Tax Agreement.

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation as an overpayment of Loan Repayments.

Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity from funds on deposit in the Principal Account or the Redemption Fund pursuant to the Indenture) or to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose. In accordance with the provisions of the Indenture described below under the caption "Credit Facility; Credit Facility Fund," unless a Credit Facility Provider Failure has occurred and is continuing or there is no Credit Facility in effect, interest on the Bonds shall be paid solely with Available Moneys. Interest on the Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, shall be payable first from drawings made under the Credit Facility for such purpose and second from Loan Repayments.

Application of Principal Account.

(A) All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to purchase or redeem or pay Sinking Fund Installments or pay at maturity the Bonds as provided in the Indenture or to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose. In accordance with the Indenture, unless a Credit Facility Provider Failure has occurred and is continuing or no Credit Facility is in effect, principal and Redemption Price of the Bonds shall be paid solely with Available Moneys. Principal and Sinking Fund Installments on the Bonds, whether at maturity, by proceedings for redemption, by acceleration or otherwise, shall be payable first from the Credit Facility Provider from drawings made under the Credit Facility for such purpose and second from the Corporation from the Loan Repayments.

(B) On each Sinking Fund Installment Date established pursuant to the Indenture, the Trustee shall apply the Sinking Fund Installment required on that date to the redemption (or payment at maturity,

as the case may be) of Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in the Principal Account 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 Account) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par amount of the Bonds so purchased. If, during the twelve-month period immediately preceding a Sinking Fund Installment payment date, the Trustee has purchased Bonds with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds with the Trustee (together with a Request of the Corporation, to apply such Bonds to the Sinking Fund Installment due on said date), or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Sinking Fund Installment, such Bonds shall be applied, to the extent of the full principal amount thereof, to reduce said Sinking Fund Installment. All Bonds purchased or deposited pursuant to the provisions of the Indenture described herein, if any, shall be cancelled by the Trustee. Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Trustee shall be allocated first to the next succeeding Sinking Fund Installment, then as a credit against such future Sinking Fund Installments as the Corporation may specify in writing.

Establishment and Application of Redemption Fund. The Trustee shall establish, maintain and hold in trust a fund separate from any other fund established and maintained under the Indenture designated as the "Redemption Fund." All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) 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 then-applicable Redemption Price, or (ii) to reimburse the Credit Facility Provider for drawings made under the Credit Facility for such purpose: provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon the 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 Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds; and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such 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.

Establishment and Application of Project Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used and withdrawn by the Trustee to pay the costs of the 2012 Series Project or to reimburse the Corporation for payments made with respect to the 2012 Series Project in accordance with the terms of the Tax Agreement. No moneys in the Project Fund shall be used to pay costs of issuance. Before any payment from the Project Fund for costs of the 2012 Series Project shall be made, the Corporation shall file or cause to be filed with the Trustee a project fund requisition, in substantially such form as is attached as an exhibit to the Indenture.

Establishment and Application of Rebate Fund.

(A) 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 specified by the Tax Agreement. Subject to the transfer provisions provided in the Indenture set forth in subsection (E) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as described in the Tax Agreement), for payment to the federal government of the United

States of America. Neither the Authority, the Corporation, the Holder of any Bonds, the Credit Facility Provider (if any) nor the Liquidity Facility Provider (if any) 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 described under this caption and under the caption "Tax Covenant" below and by the Tax Agreement (which is incorporated in the Indenture by reference).

(B) Upon the Corporation's written direction, an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Corporation if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the Corporation in accordance with the Tax Agreement. The Trustee shall provide to the Corporation (and the Authority at the Authority's request) all information maintained by the Trustee required to compute the Rebate Requirement with respect to the Bonds in the manner provided in the Tax Agreement.

(C) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to the provisions of the Indenture, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the Corporation.

(D) At the written direction of the Corporation, the Trustee shall invest all amounts held in the Rebate Fund in Investment Securities, subject to the restrictions set forth in the Tax Agreement. Money shall not be transferred from the Rebate Fund except as provided pursuant to the provisions of the Indenture described in subsection (E) below.

(E) Upon receipt of the Corporation's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the federal government of the United States of America, as so directed. In addition, if the Corporation so directs in writing, the Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds, as so directed; provided, however, only moneys in excess of the Rebate Requirement may be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Corporation.

(F) Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Requirements to the United States of America and to comply with all other requirements of the Indenture described under this caption and under the caption "Tax Covenant" below and the Tax Agreement shall survive the defeasance or payment in full of the Bonds.

Establishment and Application of Credit Facility Fund. The Trustee shall establish, maintain and hold in trust in the Trustee's name for the benefit of Holders a separate fund designated as the "Credit Facility Fund." The Trustee shall deposit in the Credit Facility Fund all moneys derived from a drawing under the Credit Facility for the purpose of paying the principal of and interest on Bonds when due. Moneys held in the Credit Facility Fund shall be held uninvested and shall not be commingled with any other moneys. Moneys in the Credit Facility Fund shall be withdrawn by the Trustee from the Credit Facility Fund and applied to the payment of the principal of and interest on Bonds on each Sinking Fund Installment Date for the Bonds (or other date upon which principal of the Bonds is due) and Interest Payment Date for the Bonds, provided that such moneys shall not be used to pay the principal of or interest on Bonds which are not Eligible Bonds. The Credit Facility Fund shall be required to be an Eligible Account.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to the Indenture (other than the Bond Purchase Fund and the Credit Facility Fund) shall be invested by the Trustee, upon direction of the Corporation, solely in Investment Securities. Investment Securities shall be purchased at such prices as the Corporation may direct. The directions of the Corporation shall be subject to the limitations set forth in the Indenture. All Investment Securities shall be acquired subject to the limitations as to maturities in the Indenture which are described under this caption and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. In the absence of directions from the Corporation, the Trustee shall invest in Investment Securities specified in clause (6) of the definition of Investment Securities.

Moneys in the Bond Purchase Fund and the Credit Facility Fund shall remain 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 or investment contract may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. Unless otherwise specifically provided in the Indenture to the contrary, 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 anything to the contrary contained in this paragraph, 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. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account shall be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or par value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

The Trustee may commingle any of the amounts on deposit in the funds or accounts established pursuant to the Indenture (other than the Bond Purchase Fund, the Credit Facility Fund or the Rebate Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell at the best price reasonably obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited.

Credit Facility

(A) The Trustee shall hold and maintain the Credit Facility (if any), which may also function as a Liquidity Facility, for the benefit of the Holders until the 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 the Credit Facility, including payment when due of any draws on the Credit Facility, and the provisions relating to the payment of draws on, and reinstatement of amounts that may be drawn under, the Credit Facility, and will not consent to, agree to or permit any amendment or modification of the

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 the 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 the Credit Facility to the Credit Facility Provider.

(B) Notwithstanding any other provision of the Indenture, unless a Credit Facility Provider Failure has occurred and is continuing or no Credit Facility is in effect, the principal and Redemption Price of and interest on Eligible Bonds shall be paid solely with Available Moneys. While a Credit Facility is in effect, the Trustee shall, on the Business Day preceding each Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of the Bonds is due), draw on the 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 Sinking Fund Installment Date (or other date upon which principal of the Bonds is due), an amount, in immediately available funds, equal to the amount of interest and principal payable on the Bonds on such Interest Payment Date and Sinking Fund Installment Date (or other date upon which principal of the Bonds is due). If for any reason the Credit Facility Provider fails to honor such drawing or repudiates its obligations under the Credit Facility, the Trustee shall immediately notify the Corporation and make a demand for payment in an amount equal to such attempted drawing. The proceeds of such draws shall be deposited in the Credit Facility Fund pursuant to the Indenture and shall be applied to pay principal of and interest on the Bonds prior to the application of any other funds held by the Trustee therefor. Amounts held in the Credit Facility Fund shall be held uninvested and separate and apart from all other funds and accounts. Notwithstanding the foregoing, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, the Trustee shall not draw on a Credit Facility with respect to any payments due or made in connection with Liquidity Facility Bonds. In no event shall the Trustee draw on the Credit Facility with respect to any payments made in connection with Bonds that are not Eligible Bonds.

(C) All provisions in the Indenture relating to the rights of the Credit Facility Provider shall be of no force and effect if there is no Credit Facility or Alternate Credit Facility in effect and, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, there are no Liquidity Facility Bonds and all amounts owing to the Credit Facility Provider and, if the Credit Facility Provider and the Liquidity Facility Provider are the same entity, the Liquidity Facility Provider under the Indenture and under the Reimbursement Agreement then in effect have been paid and the Reimbursement Agreement has been cancelled by the Credit Facility Provider.

Certain Covenants

Tax Covenant. The Authority shall at all times do and perform all acts and things permitted by law and the Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Authority agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

Enforcement of Loan Agreement and Obligation No. 32. The Trustee shall promptly collect all amounts due from the Corporation pursuant to the Loan Agreement and from the Members pursuant to Obligation No. 32, shall perform all duties imposed upon it pursuant to the Loan Agreement and shall enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the

rights of the Authority except such rights as the Authority shall have retained, and all of the obligations of the Corporation and the other Members.

Amendment of Loan Agreement

(A) Except as provided pursuant to the provisions of the Indenture described in the following paragraph, the Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, unless the written consent of (i) the Credit Facility Provider or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Corporation and the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Trustee, provided that no such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the Authority or the Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

(B) Notwithstanding the provisions of the Indenture described in preceding paragraph, the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the Authority and the Corporation by a supplement to the Loan Agreement, which the Authority and the Corporation may enter into without the consent of any Bondholders but with the written consent of the Credit Facility Provider (if any), 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 or the Corporation contained in the Loan Agreement 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 therein reserved to or conferred upon the Authority or the Corporation, 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 Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility;

(4) to evidence or give effect to, or to conform to the terms and provisions of, any Credit Facility or other credit enhancement for the Bonds;

(5) to maintain the exclusion from gross income of interest payable with respect to the Bonds; and

(6) to make any modification or amendment to the Loan Agreement which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds pursuant to the Indenture.

(C) In executing any amendment or modification of the Loan Agreement permitted by the provisions of the Indenture described under this caption, the Authority shall be entitled to receive and to

rely upon an Opinion of Counsel stating that the execution of such amendment or modification is authorized or permitted by the Indenture.

(D) Upon Request of the Corporation, the Trustee, as holder of Obligation No. 32, shall consent to any amendment to the Master Indenture requested by the Corporation.

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 as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) failure to pay the Purchase Price of any Bond tendered or subject to mandatory tender pursuant to the Indenture;

(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 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 the Credit Facility Provider or the Liquidity Facility Provider that an event of default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and which notice directs the Trustee to accelerate the Bonds; or

(G) receipt by the Trustee of notice from the Credit Facility Provider that the amount of an interest drawing under the Credit Facility will not be reinstated as provided in the Credit Facility and which notice directs the Trustee to accelerate the Bonds.

Acceleration of Maturities. Whenever any Event of Default shall have happened and be continuing, the Trustee may take the following remedial steps:

(A) In the case of an Event of Default described in clause (A), (B), (C), (D) or (E) under the caption "Event of Default," the Trustee may, with the written consent of the Credit Facility Provider (if any), and shall, at the written direction of (i) the Credit Facility Provider or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Holders of a majority in principal amount of the Bonds then Outstanding, notify the Authority and the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 32 and may request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Thereupon, the Trustee shall declare the principal of all the Bonds then Outstanding, 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 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. 32;

(B) In the case of an Event of Default described in clause (F) or (G) under the caption "Event of Default," the Trustee shall declare the principal of all the Bonds then Outstanding, 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 to the contrary notwithstanding. The Trustee shall also notify the Authority and the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 32 and may request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. 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. 32;

(C) In the case of an Event of Default described in clause (E) under the caption "Event of Default," the Trustee may (with the written consent or at the direction of the Credit Facility Provider, if any) take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Upon a declaration of acceleration pursuant to the provisions of the Indenture described herein, interest on Bonds (other than Liquidity Facility Bonds) shall cease to accrue and the Trustee shall immediately draw on any 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 Eligible Bonds and shall immediately apply the proceeds of such draw to the payment of the 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, the Authority or the Corporation shall deposit with the Trustee a sum sufficient to pay all the principal (including any Sinking Fund Installments) or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable 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. 32 has been annulled pursuant to the Master Indenture, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, with the written consent of the Credit Facility Provider (if any) and receipt by the Trustee of written confirmation that the Credit Facility and Liquidity Facility have been reinstated to the Required Stated Amount, and, in the case of an Event of Default described in clause (F) or (G) under the caption "Events of Default, the notice of default from the Credit Facility Provider shall have been rescinded, the Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration of acceleration of the Bonds and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Nothing contained in the Indenture, however, shall require the Trustee to exercise any remedies in connection with an Event of Default unless the Trustee shall have actual knowledge or shall have received written notice of such Event of Default.

Application of Revenues and Other Funds after Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions of the Indenture relating to disqualified Bonds and other than moneys required to be deposited in the Rebate Fund, the Bond Purchase Fund or the Credit Facility Fund) shall be applied by the Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Fund Installments) or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference; and

Third: To the payment to the Credit Facility Provider (if any), any amounts payable under the Reimbursement Agreement; and

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference, and then to the payment of the Credit Facility Provider (if any) of any amounts payable under the Reimbursement Agreement; and

(3) To the payment of the reasonable fees, charges and expenses of the Authority and the payment of any amounts owed pursuant to the provisions of the Loan Agreement.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed pursuant to the Indenture (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Loan Agreement, Obligation No. 32, the Act and applicable provisions of any other law. Subject to the rights of the Credit Facility Provider with respect to the enforcement of remedies related to the Bonds as described in the Indenture, 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 granted in the Indenture, 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. 32, 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 amounts and assets pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of 25%. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of the Bonds, subject to the provisions of the Indenture. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

Credit Facility Provider's and Bondholders' Direction of Proceedings. (i) The Credit Facility Provider or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction

Limitation on Bondholders' Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, Obligation No. 32, 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 by 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; (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; and (5) the Credit Facility Provider (if any) shall have consented in writing to such action.

Such notification, request, tender of indemnity and refusal or omission are declared pursuant to the Indenture, 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 such Holder's or Holders' 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. 32, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Termination of Proceedings. In case any proceedings taken by the Trustee, the Credit Facility Provider (if any) or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee, the Liquidity Facility Provider (if any), the Credit Facility Provider (if any) and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, the Credit Facility Provider (if any), the Liquidity Facility Provider (if any) and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Amendment of the Indenture

Amendments Permitted

(A) 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 (i) the Credit Facility Provider or (ii) if a Credit Facility Provider Failure has occurred and is continuing or if there is no Credit Facility Provider, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and the Corporation shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon or change the Purchase Price to be paid to Holders tendering their Bonds, 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. Notwithstanding the foregoing, if such amendment will, by its terms, not take effect so long as Bonds of any particular maturity remain Outstanding, the consent of the Holders of Bonds of such maturity shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provisions of the Indenture described under this caption.

(B) 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 with the consent of the Corporation and the Credit Facility Provider (if any), but without the necessity of obtaining the consent of any Bondholders, 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 of the Indenture 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 evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility;

(5) to evidence or give effect to, or to conform to the terms and provisions of, any Credit Facility or other credit enhancement for the Bonds;

(6) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(7) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or

(8) to make any modification or amendment to the Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds.

Defeasance

Discharge of Indenture. The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding (with Available Moneys at any time when there is a Credit Facility in effect), as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, Available Moneys or securities (purchased with Available Moneys at any time when there is a Credit Facility in effect) in the necessary amount (as provided in the Indenture) to pay when due or redeem all Bonds then Outstanding; or

(C) 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, if the Corporation shall have paid all Additional Payments, Administrative Fees and Expenses payable to the Authority, any indemnification owed to the Authority or the Trustee and any other fees and expenses payable to the Authority pursuant to the Loan Agreement, and if the Corporation shall have provided for full payment of all amounts due under the Reimbursement 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 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 shall cease, terminate, become void and be completely discharged and satisfied.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture (other than the Rebate Fund and the Bond Purchase Fund) and shall be:

(A) lawful money of the United States of America (which shall be Available Moneys at any time when there is a Credit Facility in effect) in an amount equal to the principal amount of the Bonds and all unpaid interest thereon to maturity (based on an assumed interest rate equal to the Maximum Interest Rate for periods for which the actual interest rate on the Bonds cannot be determined), except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of the Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations (not callable by the issuer thereof prior to maturity and purchased with Available Moneys, and maturing no later than the earlier of (x) the first day upon which the Bonds may be tendered or (i) the first day upon which the Bonds may be redeemed, at any time when there is a Credit Facility in effect), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity (based on an assumed interest rate equal to the Maximum Interest Rate for periods for which the actual interest rate on the Bonds cannot be determined), or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed

prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice.

Notices

Notwithstanding any other provision in the Indenture to the contrary, any notice to be delivered to Bondholders may be given by Electronic Notice.

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. 32

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. 32, concurrently with the issuance and delivery of the Bonds, Obligation No. 32. The Authority agrees that Obligation No. 32 shall be registered in the name of the Trustee.

Payments

Loan of Proceeds; Payments of Principal and Interest. 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 Account available for the payment of such interest) and (ii) on or before the Business Day next preceding each principal payment date, including, each Sinking Fund Installment Date, the aggregate amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Sinking Fund Installments required to be paid into the Principal Account for Outstanding Bonds, in each case on such principal payment date (less any amounts on deposit in the Principal Account available for the payment of such principal or Sinking Fund Installments).

Notwithstanding the foregoing, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts required to pay the 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. The Corporation shall receive credit against Loan Repayments required to be made under the Loan Agreement on any Interest Payment Date or principal payment date to the extent that payments are received by the Trustee in an amount sufficient to pay the interest on or principal of the Bonds becoming due and payable on such Interest Payment Date or principal payment date, respectively, from a drawing on the Credit Facility pursuant to the Indenture.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable by the Corporation to the Authority 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.

Except as otherwise expressly provided in the Loan Agreement, all amounts payable with respect to Obligation No. 32 shall be paid to the Trustee as assignee of the Authority, 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.

If the Corporation receives notice from the Trustee pursuant to the Indenture that the Credit Facility Provider has failed to honor a drawing under the Credit Facility or has repudiated its obligations under the Credit Facility the Corporation shall transfer to the Trustee, on or before 2:45 p.m., New York City time, an amount equal to the principal, Redemption Price and/or interest on the Bonds due and payable on such date.

Additional Payments. In addition to Loan Repayments and payments on Obligation No. 32, the Corporation shall also pay to the Authority, the Trustee, the Credit Facility Provider (if any) and the Liquidity Facility Provider (if any) or the designated agent of any of them, 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 and expenses of the Trustee for services rendered under the Loan Agreement and under the Indenture, as and when the same become due and payable and all reasonable fees, charges and expenses of the Credit Facility Provider (if any) and the Liquidity Facility Provider (if any) 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. 32, Obligation No. 32 or the Indenture; and

(d) The annual fee of the Authority and the reasonable fees and expenses of the Authority or any agent or counsel selected by the Authority to act on its behalf, including, without limitation, the Attorney General of the State of California, in connection with the Loan Agreement, the Master Indenture, Supplement No. 32, Obligation No. 32, 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, the Master Indenture, Supplement No. 32, Obligation No. 32 or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable 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. 32 or Obligation No. 32.

Prepayment. The Corporation shall have the right, so long as all amounts that have theretofore become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Loan Repayments, and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds. All such prepayments shall be deposited upon receipt in the Redemption Fund or in such escrow fund or account held by the Trustee as the Corporation shall specify, and, at the request of and as determined by the Corporation, credited against payments due under the Loan Agreement 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.

Notwithstanding any prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Corporation shall not be relieved of its obligations under the Loan Agreement.

The Corporation shall also have the right to surrender Bonds acquired by it in any manner whatsoever to the Trustee for cancellation, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired and allocated as set forth in a Request of the Corporation.

Payment of Purchase Price of Purchased Bonds. The Corporation agrees that, if a Liquidity Facility is not in effect with respect to the Bonds or if the Liquidity Facility Provider has not paid the full amount required by the Indenture at the times required under the Indenture, the Corporation shall pay to the Trustee all amounts necessary for the purchase of Bonds pursuant to the Indenture and not deposited with the Trustee by the Remarketing Agent from the proceeds of the sale of such Bonds. Each such payment by the Corporation to the Trustee pursuant to the provisions of the Loan Agreement described herein shall be in immediately available funds and shall be paid to the Trustee at its Principal Office by 2:45 p.m., New York City time, on each date upon which a payment is to be made pursuant to the provisions of the Indenture described above under the caption "Indenture - General Provisions Relating to Tenders."

Obligations Unconditional. The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 32, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 32, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 32, 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. 32 without abatement, deduction or setoff 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. 32 for any reason whatsoever, including, without limitation, any right of setoff 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 of California, 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.

The rights of the Trustee or any party or parties on behalf of whom the Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the Authority, the Master Trustee or the Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the Authority, by the Master Trustee or by the Trustee to the Corporation.

Certain Covenants of the Corporation

Liquidity Facility. The Corporation may, at any time at its sole option, deliver to the Trustee a Liquidity Facility (or an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect) to provide for the purchase of Bonds upon their optional or mandatory tender in accordance with the provisions of the Indenture. The Corporation may also voluntarily terminate a Liquidity Facility at any time subject to compliance with the notice and mandatory tender provisions set forth in the Indenture.

No Liquidity Facility will be in effect on the Issue Date.

Credit Facility. The Corporation may, at any time at its sole option, furnish a Credit Facility (or an Alternate Credit Facility in substitution for the Credit Facility then in effect) to provide credit support and liquidity for the Bonds. The Corporation may also voluntarily terminate a Credit Facility at any time subject to compliance with the notice and mandatory tender provisions set forth in the Indenture.

No Credit Facility will be in effect on the Issue Date.

Self-Liquidity Arrangement. The Corporation may, at its sole option, maintain a Self-Liquidity Arrangement in lieu of a Liquidity Facility.

Continuing Disclosure. The Corporation covenants and agrees pursuant to the Loan Agreement to comply with the continuing disclosure requirements promulgated under the Rule. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the requirements of the Rule shall not be considered a Loan Default Event; however, 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 the Trustee is indemnified to its satisfaction from and against any cost, liability or expense related thereto, including, without limitation, reasonable fees and expenses of its attorneys and advisors and its additional fees and expenses, 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 to comply with its obligations described herein.

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. 32 when due, whether on an Interest Payment Date, at maturity, upon a date fixed for prepayment, by declaration, upon tender of the Bonds for purchase pursuant to the Indenture or otherwise pursuant to the terms of the Loan Agreement;

(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. 32 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 described in subsection (a) or (b) above, or shall breach any warranty by the Corporation contained in the Loan Agreement, for a period of 60 days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority or the Trustee; except that, if such failure or breach can be remedied but not within such 60 day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy such failure or breach in accordance with and subject to any directions or limitations of time established by the Authority or the Trustee;

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities;

(e) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation's facilities, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control;

(g) Any Event of Default as defined in and under the Indenture; or

(h) Any Event of Default as defined in and under the Master Indenture.

Remedies on Default. Subject in all cases to the rights of a Credit Facility Provider (if any) with respect to remedies set forth in the Indenture, if a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Trustee on behalf of the Authority, subject to the limitations in the Indenture as to the enforcement of remedies and subject to the Trustee's rights and protections under the Indenture, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given by the Loan Agreement or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Corporation's performance under the Loan Agreement (including, without limitation, Obligation No. 32 and the Master Indenture);

(b) By written notice to the Corporation declare an amount equal to all amounts then due and payable on the Bonds, whether by acceleration of maturity or otherwise, to be immediately due and payable under the Loan Agreement, whereupon the same shall become immediately due and payable; and

(c) Take any action at law or in equity to collect the payment required under the Loan Agreement then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Trustee shall not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee if the Master Trustee shall have declared the aggregate principal amount of Obligation No. 32 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 Variable Rate Revenue Bonds
(Stanford Hospital and Clinics), 2012 Series C
Final Opinion

Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Issuer") in connection with issuance of \$60,000,000 aggregate principal amount of California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics), 2012 Series C (the "Bonds"), issued pursuant to an Indenture, dated as of May 1, 2012 (the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to Stanford Hospital and Clinics (the "Borrower") pursuant to Loan Agreement, dated as of May 1, 2012 (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 financed or refinanced with the proceeds of the 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 its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the 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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against authorities of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, judicial reference, 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 real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. 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 and the Bond 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 any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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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 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, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. 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.

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 Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. a consenting or voting right to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium and redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC nor of its nominee, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium and redemption proceeds, distributions, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer 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 Tender/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 Tender/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 Tender/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 Issuer 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 Issuer 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 Issuer, the Hospitals and Guarantors believe to be reliable, but neither the Issuer, the Hospitals nor the Guarantors 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 nor the Corporation is responsible or liable for the failure of DTC or any Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

None of the Authority, Corporation or the Bond Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Participant, or any Indirect Participant; (ii) the payment by DTC or any Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Bonds; (iii) any notice that is permitted or required to be given to Holders under the Bond Indenture; (iv) the selection by DTC, any Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Participants or Indirect Participants under the book-entry system.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated May 23, 2012 (this "Disclosure Agreement"), is executed and delivered by Stanford Hospital and Clinics, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America ("U.S. Bank") in connection with the issuance of \$60,000,000 aggregate principal amount of California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics), 2012 Series C (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of May 1, 2012 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and U.S. Bank, as trustee (the "Trustee").

The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of May 1, 2012 (the "Loan Agreement"), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement are secured by Stanford Hospital and Clinics Obligation No. 32, issued by the Corporation pursuant to the Supplemental Master Indenture for Obligation No. 32, dated as of May 1, 2012 ("Supplement No. 32"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"). Supplement No. 32 supplements the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (the "Master Indenture of Trust"), between the Corporation and the Master Trustee. The Master Indenture of Trust, as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by Supplement No. 32, is hereinafter referred to as the Master Indenture.

Pursuant to Section 6.11 of the Indenture and Section 5.13 of the Loan Agreement, the Corporation, acting on its own behalf and on behalf of each other Person who becomes a Member of the Obligated Group (as such terms are defined in the Master Indenture), the Trustee and U.S. Bank, as dissemination agent (the "Dissemination Agent"), covenant and agree as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation, the Trustee and the Dissemination Agent for the benefit of the Holders and Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Corporation, the Trustee and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to any such reports, notices or disclosures or with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Agreement.

Beneficial Owner shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Disclosure Representative shall mean the Authorized Representative of the Corporation or his or her designee, or such other person as the Authorized Representative of the Corporation shall designate in writing to the Trustee and the Dissemination Agent from time to time.

Dissemination Agent shall mean U.S. Bank, 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) or Section 5(B) of this Disclosure Agreement.

Participating Underwriter shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Quarterly Report shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

Repository shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the Municipal Securities Rulemaking Board or the SEC, filings with the Municipal Securities Rulemaking Board are to be made through the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>.

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.

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, 2012, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the fiscal year of the Obligated Group changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(H).

(B) Not later than two (2) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repository, the Corporation shall provide the Annual Report (in such format as is specified in Section 14) to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by two (2) Business Days prior to such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Corporation and the Dissemination Agent to determine if the Corporation is in compliance with subsection (A).

(C) If the Trustee is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (A), the Trustee shall send a notice, in electronic format, to the Repository, such notice to be in substantially the form attached as Exhibit A hereto.

(D) Unless the Corporation shall have informed the Dissemination Agent in writing that the Corporation has provided the Annual Report directly to the Repository, in which case the Corporation shall file a report with the Authority, the Dissemination Agent and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided, the Dissemination Agent shall file a report with the Corporation, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

(E) In addition to providing the Annual Report required to be filed pursuant to subsection (A), the Corporation shall, or shall upon written direction, cause the Dissemination Agent to, provide to the Repository, unaudited financial information on a quarterly basis, such unaudited financial information to be provided for the first fiscal quarter, the second fiscal quarter, and the third fiscal quarter and to consist of a consolidated balance sheet, a consolidated statement of operations and changes in net assets and a consolidated statement of cash flows of the Obligated Group and such subsidiaries as are required to be included in accordance with generally accepted accounting principles and an update (as of the last day of the most recently ended fiscal quarter) of the information contained in Table 7 entitled "Historical Utilization" set forth under the caption "Services, Facilities, and Operations-Utilization" in Appendix A of the Official Statement, dated May 22, 2012, relating to the Bonds (the "Official Statement"), 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 August 31, 2012, the Corporation shall provide, or cause the Dissemination Agent to provide, a Quarterly Report, consistent with this subsection (E) and in such format as is specified in Section 14, 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. In the event the Corporation shall direct the Dissemination Agent to provide a Quarterly Report to the Repository, the Corporation shall provide the Quarterly Report to the Dissemination Agent not later than two (2) Business Days prior to the date such Quarterly Report is to be provided to the Repository.

(F) In addition to providing the Annual Report required to be filed pursuant to subsection (A) and the Quarterly Reports which the Corporation has agreed to file, or cause to be filed, pursuant to subsection (E), the Corporation covenants to provide, in a monthly liquidity report, certain liquidity information as of the last day of each month, such information to be filed no later than the fifteenth (15th) calendar day of the second month following the end of each month; provided, however, that such monthly reports shall only be required to be filed while any Bonds may be optionally or mandatorily tendered and payment of such tender price is solely secured by the Corporation.

SECTION 4. Content of Annual Reports. The Annual Report of the Obligated Group shall contain or include by reference the following:

(A) The audited financial statements of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable in the United States as promulgated from time to time. If the Obligated Group's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the Official Statement and the audited financial statements shall be filed in the same manner as the Annual Report when such audited financial statements become available.

(B) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information set forth in the front portion of the Official Statement under the caption "Debt Service Requirements."

(C) An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information contained in each of the following tables set forth in Appendix A of the Official Statement: (i) Table 7 entitled "Historical Utilization" set forth under the caption "Services, Facilities, and Operations-Utilization;" (ii) Table 9 entitled "Consolidated Capitalization" set forth under the caption "Summary of Financial Information-Capitalization;" (iii) Table 10 entitled "Consolidated Liquidity" set forth under the caption "Summary of Financial Information-Liquidity;" and (iv) Table 11 entitled "Maximum Annual Debt Service Coverage" set forth under the caption "Summary of Financial Information-Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation or any other Member of the Obligated Group is an "obligated person" (as such term is defined in the Rule), which have been submitted to the Repository. The Corporation shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(A) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten (10) Business Days after the occurrence of the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on the credit enhancements reflecting financial difficulties;
4. substitution of the credit or liquidity providers or any failure by such credit or liquidity providers to perform;
5. adverse tax opinions or issuance by the Internal Revenue Service of a proposed or final determination of taxability or a Notice of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. rating changes; or
9. bankruptcy, insolvency, receivership or similar event of any Member of the Obligated Group.

Note: for the purposes of the event identified in subsection (9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for any Member of the Obligated Group in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of such Member of the Obligated Group, or if such jurisdiction has been assumed by leaving the existing governing body and officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of

an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of such Member of the Obligated Group.

(B) 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, in a timely manner not later than ten (10) Business Days after the occurrence of the event, such notice to be provided in accordance with the provisions set forth in Section 14:

1. unless described in subsection 5(A)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. modifications to rights of Bondholders;
3. Bond calls;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation or acquisition involving any Member of the Obligated Group or the sale of all or substantially all of the assets of any Member of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. appointment of a successor or additional trustee or the change of name of a trustee.

(C) If the Corporation learns of the occurrence of a Listed Event described in Section 5(A), or determines that knowledge of a Listed Event described in Section 5(B) would be material under applicable federal securities laws, the Corporation shall within ten (10) Business Days of occurrence file a notice of such occurrence, or cause a notice of such occurrence to be filed, with the Repository. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(A)(7) or Section 5(B)(3) need not be given under this Section 5(C) any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(D) 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 described in Section 5(B), 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 Section 5(H). 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 Office of the Trustee 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.

(E) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event described in Section 5(B), whether because of a notice from the Trustee pursuant to Section 5(D) or otherwise, the Corporation shall as soon as possible determine if such event would be material under applicable federal securities laws.

(F) If the Corporation has determined that knowledge of the occurrence of a Listed Event described in Section 5(B) 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 Section 5(H).

(G) If in response to a request under Section 5(D), the Corporation determines that the Listed Event described in Section 5(B) 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 Section 5(H).

(H) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event described in Section 5(B), the Dissemination Agent shall file a notice of such occurrence with the Repository, such notice to be provided in accordance with the provisions set forth in Section 14.

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 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. In the event that the Corporation discharges the Dissemination Agent and does not appoint a successor Dissemination Agent, the Corporation shall perform the obligations of the Dissemination Agent under this Disclosure Agreement.

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, 5(A) or 5(B), 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 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 a filing with the Repository, 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 or any other event required to be reported.

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 Bonds Outstanding, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under either Indenture or a Loan Default Event under either Loan Agreement, 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, including, without limitation, email, receipt of which shall be confirmed, or delivered as set forth below:

- (i) If to the Corporation:

Stanford Hospital and Clinics
300 Pasteur Drive
M/C 5554
Stanford, California 94305
Attention: Treasurer
Telephone: (650) 725-3917
Telecopy: (650) 725-1272

- (ii) If to the Trustee or the Dissemination Agent:

U.S. Bank National Association
One California Street, 10th Floor
San Francisco, California 94111
Attention: Corporate Trust Services
Telephone: (415) 677-3591
Telecopy: (415) 677-3769

- (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

With respect to any notice to be delivered to the Corporation by electronic means, including, without limitation, any notice to be delivered by email, such notice shall be addressed to the

Chief Financial Officer of the Corporation at the email or other address provided by the Corporation to the Authority and the Trustee and the Dissemination Agent from time to time for delivery by email or other electronic means, with a copy to such other email address or addresses as may be designated from time to time by the Disclosure Representative. With respect to any notice to be delivered to the Trustee or the Dissemination Agent by electronic means, including, without limitation, any notice to be delivered by email, such notice shall be addressed to the representative of the Trustee or the Dissemination Agent, as applicable, at the email or other address provided by the Trustee or the Dissemination Agent to the Corporation and the Authority from time to time for delivery by email or other electronic means. With respect to any notice to be delivered to the Authority by electronic means, including, without limitation, any notice to be delivered by email, such notice shall be addressed to the Executive Director of the Authority at the email or other address provided by the Authority to the Corporation and the Trustee and the Dissemination Agent from time to time for delivery by email or other electronic means.

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. Format for Filings. Any notice, report or filing with the Repository pursuant to this Disclosure Agreement must be submitted in electronic format, in word searchable pdf format, accompanied by such identifying information as is prescribed by the Repository. Until otherwise designated by the Repository or the SEC, filings with the Repository are to be made through the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>.

SECTION 15. Governing Law. This Disclosure Agreement shall be construed in accordance with and governed by the Constitution and laws of the State of California applicable to contracts made and performed in the State of California.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Stanford Hospital and Clinics

By: _____
Chief Financial Officer

U.S. Bank National Association,
as Trustee and Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

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

Name of Issue: California Health Facilities Financing Authority
Variable Rate Revenue Bonds (Stanford Hospital and Clinics),
2012 Series C

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

Date of Issuance of Bonds: May 23, 2012

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-referenced Bonds as required by Section 6.11 of the Indenture, dated as of May 1, 2012, between the Authority and U.S. Bank National Association, as trustee, and as required by Section 5.13 of the Loan Agreement, dated as of May 1, 2012, between the Authority and the Corporation. [The Corporation anticipates that the Annual Report will be filed by _____.]

Dated: _____

U.S. Bank National Association,
as trustee on behalf of Stanford Hospital and Clinics

cc: Authority
Corporation



STANFORD

HOSPITAL & CLINICS

Stanford University Medical Center

