NEW ISSUE – BOOK-ENTRY ONLY

Ratings:† ***Fitch: AA***
S&P: AA-
Moody's: Aa3

$365,100,000
STANFORD HEALTH CARE
Taxable Bonds
Series 2021

Dated: Date of Issuance **Due:** August 15, 2051

This Offering Memorandum has been prepared to provide information in connection with the issuance of the Stanford Health Care Taxable Bonds, Series 2021 (the "Taxable Bonds"). The Taxable Bonds will be issued pursuant to the terms of an Indenture of Trust, dated as of April 1, 2021 (the "Indenture"), between Stanford Health Care ("SHC") and U.S. Bank National Association, as trustee (the "Trustee").

The Taxable Bonds are general obligations of SHC, and are payable from payments made by SHC under the Indenture, from payments to be made by the Obligated Group on Obligation No. 44 to be issued under the Master Indenture, as described herein, and from certain funds held under the Indenture.

The Taxable Bonds are subject to optional redemption and mandatory purchase in lieu of redemption prior to maturity, as described herein.

Interest on and gain, if any, on the sale of the Taxable Bonds are not excludable from gross income for federal, state or local income tax purposes. See "CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS" herein.

The Taxable Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases of the Taxable Bonds will be made in book-entry form only. Principal, Redemption Price and Make-Whole Redemption Price of and interest on the Taxable Bonds will be payable by the Trustee for the Taxable Bonds to the registered owners, which will be Cede & Co. as long as DTC is the Securities Depository. Subsequent disbursements of principal, Redemption Price, Make-Whole Redemption Price and interest will be made by Participants in DTC to the Beneficial Owners of the Taxable Bonds.

The Taxable Bonds will be issued in the denomination of $1,000 or any integral multiple thereof.

Interest on the Taxable Bonds will be payable semiannually on February 15 and August 15 in each year, commencing on August 15, 2021.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Offering Memorandum to obtain information essential to making an informed investment decision.

MATURITY DATE, PRINCIPAL AMOUNT,
INTEREST RATE AND YIELD

$365,100,000 3.027% Taxable Bonds due August 15, 2051 Price: 100% Yield: 3.027% CUSIP †† 85434VAC2

The Taxable Bonds are offered when, as and if received by the Underwriters, subject to prior sale and to the approval of certain legal matters for SHC by Ropes & Gray LLP, San Francisco, California, and for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Francisco, California. It is expected that the Taxable Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about April 30, 2021.

GOLDMAN SACHS & CO. LLC **RBC CAPITAL MARKETS**

April 21, 2021

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† For an explanation of the ratings, see "RATINGS" herein.

†† A registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. The CUSIP number is provided for convenience of reference only. Neither SHC nor the Underwriters assume any responsibility for the accuracy of such CUSIP number.

SUMMARY OF THE OFFERING

Issuer	Stanford Health Care
Securities Offered	$365,100,000 3.027% Stanford Health Care Taxable Bonds, Series 2021, due August 15, 2051 (the "Taxable Bonds")
Interest Payment Dates	February 15 and August 15 of each year, commencing August 15, 2021
Interest Accrual Dates	Interest will accrue from the Settlement Date
Redemption	The Taxable Bonds are subject to optional redemption prior to maturity, in whole or in part (i) prior to the Par Call Date, at the Make-Whole Redemption Price, and (ii) on or after the Par Call Date, at the Redemption Price, as further described herein. See "THE TAXABLE BONDS—Redemption" herein.
Settlement Date	April 30, 2021
Authorized Denominations	$1,000 and any integral multiple thereof
Form and Depository	The Taxable Bonds will be delivered solely in book-entry form through the facilities of DTC. See "BOOK-ENTRY ONLY SYSTEM."
Use of Proceeds	SHC will use proceeds of the Taxable Bonds as described in "THE PLAN OF FINANCE" herein.
Ratings	Fitch: AA S&P: AA- Moody's: Aa3

This Offering Memorandum does not constitute an offer to sell the Taxable Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Taxable Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make an offer, solicitation or sale in that state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained in this Offering Memorandum in connection with the offering of the Taxable Bonds and, if given or made, that information or representation must not be relied upon.

The information set forth in APPENDIX F has been furnished by DTC, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking SA ("Clearstream"). All other information herein has been obtained by the Underwriters from SHC and other sources deemed by the Underwriters to be reliable, but is not to be construed as a representation by the Underwriters. The information herein is subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of DTC, Euroclear, Clearstream or SHC.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of, their respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of this information.

The CUSIP numbers of the Taxable Bonds are included in this Offering Memorandum for the convenience of the Holders and potential Holders. No assurance can be given that the CUSIP numbers for the Taxable Bonds will remain the same after the date of issuance and delivery of the Taxable Bonds.

References to web site addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this Offering Memorandum.

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

CAUTIONARY STATEMENTS REGARDING PROJECTIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS IN THIS OFFERING MEMORANDUM

Certain statements included or incorporated by reference in this Offering Memorandum constitute projections or estimates of future events, generally known as forward-looking statements. These statements are generally 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 Offering Memorandum and under the caption "SUMMARY OF FINANCIAL INFORMATION—Management's Discussion and Analysis of Recent Financial Performance" in APPENDIX A to this Offering Memorandum.

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

The Taxable Bonds and Obligation No. 44 have not been registered with the Securities Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), and are being issued in reliance on an exemption contained in Section 3(a)(4) of the Securities Act. The Taxable Bonds are not exempt from registration in every jurisdiction in the United States; some jurisdictions' securities laws (the "blue sky laws") may require a filing and a fee to secure the Taxable Bonds' exemption from registration. Neither the Indenture nor the Master Indenture has been qualified under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), in reliance upon an exemption contained in the Trust Indenture Act.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

SHC MAKES NO REPRESENTATION AS TO THE ACCURACY, COMPLETENESS OR ADEQUACY OF THE INFORMATION UNDER THIS CAPTION. REFERENCES HEREIN TO THE "ISSUER" MEANS SHC AND REFERENCES TO "BONDS," "NOTES" OR "SECURITIES" MEAN THE TAXABLE BONDS OFFERED HEREBY. NONE OF SHC NOR THE UNDERWRITERS ASSUME ANY RESPONSIBILITY FOR THIS SECTION.

MINIMUM UNIT SALES

THE BONDS WILL TRADE AND SETTLE ON A UNIT BASIS (ONE UNIT EQUALING ONE BOND OF $1,000 PRINCIPAL AMOUNT). FOR ANY SALES MADE OUTSIDE THE UNITED STATES, THE MINIMUM PURCHASE AND TRADING AMOUNT IS 150 UNITS (BEING 150 BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF $150,000), EXCEPT AS OTHERWISE PROVIDED HEREIN WITH REGARD TO THE REPUBLIC OF KOREA.

NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA ("EEA") AND UNITED KINGDOM

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA. FOR THESE PURPOSES, A "***RETAIL INVESTOR***" MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, "***MIFID II***"); (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE "***INSURANCE DISTRIBUTION DIRECTIVE***"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN REGULATION (EU) 2017/1129 (THE "***PROSPECTUS REGULATION***"). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO. 1286/2014 (AS AMENDED, THE "***PRIIPS REGULATION***") FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE UNITED KINGDOM. FOR THESE PURPOSES, A "RETAIL INVESTOR" MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT, AS DEFINED IN POINT (8) OF ARTICLE 2 OF REGULATION (EU) NO 2017/565 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 ("***EUWA***"); (II) A CUSTOMER WITHIN THE MEANING OF THE PROVISIONS OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (AS AMENDED, THE "***FSMA***") AND ANY RULES OR REGULATIONS MADE UNDER THE FSMA TO IMPLEMENT DIRECTIVE (EU) 2016/97, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT, AS DEFINED IN POINT (8) OF ARTICLE 2(1) OF REGULATION (EU) NO 600/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN ARTICLE 2 OF REGULATION (EU) 2017/1129 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA (THE ***"UK PRIIPS REGULATION***") FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE UNITED KINGDOM HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE UNITED KINGDOM MAY BE UNLAWFUL UNDER THE UK PRIIPS REGULATION.

THIS OFFERING MEMORANDUM HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS TO ANY PERSON THAT IS LOCATED WITHIN A MEMBER STATE OF THE EEA OR THE UNITED KINGDOM WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 1(4) OF THE

PROSPECTUS REGULATION OR SECTION 86 OF THE FSMA (IN EACH CASE AS APPLICABLE) FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR OFFERS OF THE BONDS. ACCORDINGLY, ANY PERSON MAKING OR INTENDING TO MAKE ANY OFFER IN THE EEA OR THE UNITED KINGDOM OF THE BONDS SHOULD ONLY DO SO IN CIRCUMSTANCES IN WHICH NO OBLIGATION ARISES FOR THE ISSUER OR ANY OF THE UNDERWRITERS TO PROVIDE A PROSPECTUS FOR SUCH OFFER. NEITHER THE ISSUER NOR THE UNDERWRITERS HAVE AUTHORIZED, NOR DO THEY AUTHORIZE, THE MAKING OF ANY OFFER OF BONDS THROUGH ANY FINANCIAL INTERMEDIARY, OTHER THAN OFFERS MADE BY THE UNDERWRITERS, WHICH CONSTITUTE THE FINAL PLACEMENT OF THE BONDS CONTEMPLATED IN THIS OFFERING MEMORANDUM.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN "OFFER OF SECURITIES TO THE PUBLIC" IN RELATION TO THE BONDS IN ANY MEMBER STATE OF THE EEA OR THE UNITED KINGDOM MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE BONDS TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE THE BONDS OR SUBSCRIBE FOR THE BONDS.

EACH SUBSCRIBER FOR OR PURCHASER OF THE BONDS IN THE OFFERING LOCATED WITHIN A MEMBER STATE OF THE EEA OR THE UNITED KINGDOM WILL BE DEEMED TO HAVE REPRESENTED, ACKNOWLEDGED AND AGREED THAT IT IS A "***QUALIFIED INVESTOR***" AS DEFINED IN THE PROSPECTUS REGULATION AND IN ARTICLE 2 OF REGULATION (EU) 2017/1129 AS IT FORMS PART OF DOMESTIC LAW BY VIRTUE OF THE EUWA. THE ISSUER AND EACH UNDERWRITER AND OTHERS WILL RELY ON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATION, ACKNOWLEDGEMENT AND AGREEMENT.

ADDITIONAL NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFERING MEMORANDUM HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FSMA AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFERING MEMORANDUM IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM, (II) ARE INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "FINANCIAL PROMOTION ORDER"), (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FSMA) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE BE LAWFULLY COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS OFFERING MEMORANDUM IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG

THE CONTENTS OF THIS OFFERING MEMORANDUM HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE OFFER OF THE BONDS. IF YOU ARE IN ANY DOUBT ABOUT ANY OF THE CONTENTS OF THIS OFFERING MEMORANDUM, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

THIS OFFERING MEMORANDUM HAS NOT BEEN, AND WILL NOT BE, REGISTERED AS A PROSPECTUS (AS DEFINED IN THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE (CHAPTER 32 OF THE LAWS OF HONG KONG)) IN HONG KONG (THE "***C(WUMP)O***") NOR HAS IT BEEN APPROVED BY THE SECURITIES AND FUTURES COMMISSION OF HONG KONG PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571 OF THE LAWS OF HONG KONG) (THE "***SFO***"). ACCORDINGLY, THE BONDS MAY NOT BE OFFERED OR SOLD IN HONG KONG

BY MEANS OF THIS OFFERING MEMORANDUM OR ANY OTHER DOCUMENT, AND THIS OFFERING MEMORANDUM MUST NOT BE ISSUED, CIRCULATED OR DISTRIBUTED IN HONG KONG, OTHER THAN (A) TO 'PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE UNDER THE SFO; OR (B) IN OTHER CIRCUMSTANCES WHICH DO NOT RESULT IN THIS OFFERING MEMORANDUM OR ANY OTHER DOCUMENT BEING A "PROSPECTUS" AS DEFINED IN THE C(WUMP)O OR WHICH DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE C(WUMP)O. IN ADDITION, NO PERSON MAY ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSES OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE, ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE BONDS, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO THE BONDS WHICH ARE OR ARE INTENDED TO BE DISPOSED OF ONLY (A) TO PERSONS OUTSIDE HONG KONG, OR (B) TO 'PROFESSIONAL INVESTORS' AS DEFINED IN THE SFO AND ANY RULES MADE UNDER THE SFO.

NOTICE TO INVESTORS IN SINGAPORE

THIS OFFERING MEMORANDUM HAS NOT BEEN REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF THE NOTES MAY NOT BE CIRCULATED OR DISTRIBUTED, NOR MAY THE NOTES BE OFFERED OR SOLD, OR BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR (AS DEFINED IN SECTION 4A OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE "*SFA*")) UNDER SECTION 274 OF THE SFA, (II) TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA) PURSUANT TO SECTION 275(1) OF THE SFA, OR ANY PERSON PURSUANT TO SECTION 275(1A) OF THE SFA, AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA OR (III) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE PROVISION OF THE SFA, IN EACH CASE SUBJECT TO CONDITIONS SET FORTH IN THE SFA.

WHERE THE NOTES ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON WHICH IS A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR, THE SECURITIES (AS DEFINED IN SECTION 239(1) OF THE SFA) OF THAT CORPORATION SHALL NOT BE TRANSFERABLE FOR 6 MONTHS AFTER THAT CORPORATION HAS ACQUIRED THE NOTES UNDER SECTION 275 OF THE SFA EXCEPT: (1) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA OR TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA), (2) WHERE SUCH TRANSFER ARISES FROM AN OFFER IN THAT CORPORATION'S SECURITIES PURSUANT TO SECTION 275(1A) OF THE SFA, (3) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER, (4) WHERE THE TRANSFER IS BY OPERATION OF LAW, (5) AS SPECIFIED IN SECTION 276(7) OF THE SFA, OR (6) AS SPECIFIED IN REGULATION 32 OF THE SECURITIES AND FUTURES (OFFERS OF INVESTMENTS) (SHARES AND DEBENTURES) REGULATIONS 2005 OF SINGAPORE ("*REGULATION 32*").

WHERE THE NOTES ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 OF THE SFA BY A RELEVANT PERSON WHICH IS A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN ACCREDITED INVESTOR, THE BENEFICIARIES' RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERABLE FOR 6 MONTHS AFTER THAT TRUST HAS ACQUIRED THE NOTES UNDER SECTION 275 OF THE SFA EXCEPT: (1) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SFA OR TO A RELEVANT PERSON (AS DEFINED IN SECTION 275(2) OF THE SFA), (2) WHERE SUCH TRANSFER ARISES FROM AN OFFER THAT IS MADE ON TERMS THAT SUCH RIGHTS OR INTEREST ARE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN S$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION (WHETHER SUCH AMOUNT IS TO BE PAID FOR IN CASH OR BY EXCHANGE OF SECURITIES OR OTHER ASSETS), (3) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE

TRANSFER, (4) WHERE THE TRANSFER IS BY OPERATION OF LAW, (5) AS SPECIFIED IN SECTION 276(7) OF THE SFA, OR (6) AS SPECIFIED IN REGULATION 32.

NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INSTRUMENTS AND EXCHANGE ACT OF JAPAN (ACT NO. 25 OF 1948, AS AMENDED, THE "FIEA"). NEITHER THE BONDS NOR ANY INTEREST THEREIN MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN (AS DEFINED UNDER ITEM 5, PARAGRAPH 1, ARTICLE 6 OF THE FOREIGN EXCHANGE AND FOREIGN TRADE ACT (ACT NO. 228 OF 1949, AS AMENDED)), OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE FIEA AND ANY OTHER APPLICABLE LAWS, REGULATIONS AND MINISTERIAL GUIDELINES OF JAPAN.

THE PRIMARY OFFERING OF THE BONDS AND THE SOLICITATION OF AN OFFER FOR ACQUISITION THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER PARAGRAPH 1, ARTICLE 4 OF THE FIEA. AS IT IS A PRIMARY OFFERING , IN JAPAN, THE BONDS MAY ONLY BE OFFERED, SOLD, RESOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY TO, OR FOR THE BENEFIT OF CERTAIN QUALIFIED INSTITUTIONAL INVESTORS AS DEFINED IN THE FIEA ("QIIS") IN RELIANCE ON THE QIIS-ONLY PRIVATE PLACEMENT EXEMPTION AS SET FORTH IN ITEM 2(I) PARAGRAPH 3, ARTICLE 2 OF THE FIEA.. A QII WHO PURCHASED OR OTHERWISE OBTAINED THE BONDS CANNOT RESELL OR OTHERWISE TRANSFER THE BONDS IN JAPAN TO ANY PERSON EXCEPT ANOTHER QII.

NOTICE TO PROSPECTIVE INVESTORS IN CANADA

THE BONDS MAY BE SOLD IN CANADA ONLY TO PURCHASERS PURCHASING, OR DEEMED TO BE PURCHASING, AS PRINCIPAL THAT ARE ACCREDITED INVESTORS, AS DEFINED IN NATIONAL INSTRUMENT 45-106 PROSPECTUS EXEMPTIONS OR SUBSECTION 73.3(1) OF THE SECURITIES ACT (ONTARIO), AND ARE PERMITTED CLIENTS, AS DEFINED IN NATIONAL INSTRUMENT 31-103 REGISTRATION REQUIREMENTS, EXEMPTIONS AND ONGOING REGISTRANT OBLIGATIONS. ANY RESALE OF THE BONDS MUST BE MADE IN ACCORDANCE WITH AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE PROSPECTUS REQUIREMENTS OF APPLICABLE SECURITIES LAWS.

PURSUANT TO SECTION 3A.3 OF NATIONAL INSTRUMENT 33-105 UNDERWRITING CONFLICTS ("NI 33-105"), THE UNDERWRITERS ARE NOT REQUIRED TO COMPLY WITH THE DISCLOSURE REQUIREMENTS OF NI 33-105 REGARDING UNDERWRITER CONFLICTS OF INTEREST IN CONNECTION WITH THIS OFFERING.

SECURITIES LEGISLATION IN CERTAIN PROVINCES OR TERRITORIES OF CANADA MAY PROVIDE A PURCHASER WITH REMEDIES FOR RESCISSION OR DAMAGES IF THIS OFFERING MEMORANDUM (INCLUDING ANY AMENDMENT THERETO) CONTAINS A MISREPRESENTATION, PROVIDED THAT THE REMEDIES FOR RESCISSION OR DAMAGES ARE EXERCISED BY THE PURCHASER WITHIN THE TIME LIMIT PRESCRIBED BY THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE OR TERRITORY. THE PURCHASER SHOULD REFER TO ANY APPLICABLE PROVISIONS OF THE SECURITIES LEGISLATION OF THE PURCHASER'S PROVINCE OR TERRITORY FOR PARTICULARS OF THESE RIGHTS OR CONSULT WITH A LEGAL ADVISOR.

NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN

THE BONDS WILL NOT BE LISTED ON THE TAIPEI EXCHANGE AND MAY BE MADE AVAILABLE ONLY (I) TO INVESTORS IN TAIWAN THROUGH LICENSED TAIWAN FINANCIAL INSTITUTIONS TO THE EXTENT PERMITTED UNDER RELEVANT TAIWAN LAWS AND REGULATIONS; (II) TO THE OFFSHORE BANKING UNITS OF TAIWAN BANKS PURCHASING THE BONDS FOR THEIR PROPRIETARY ACCOUNT, IN TRUST FOR THEIR NON-TAIWAN TRUST CLIENTS OR FOR PURPOSES OF ON-SALE TO QUALIFIED TAIWAN INVESTORS; (III) TO THE OFFSHORE SECURITIES UNITS OF TAIWAN SECURITIES FIRMS PURCHASING THE BONDS FOR THEIR PROPRIETARY ACCOUNT, IN

TRUST FOR THEIR TRUST CLIENTS, AS AGENT FOR THEIR BROKERAGE CLIENTS OR FOR PURPOSES OF ON-SALE TO QUALIFIED TAIWAN INVESTORS; (IV) TO THE OFFSHORE INSURANCE UNITS OF TAIWAN INSURANCE COMPANIES PURCHASING THE BONDS FOR THEIR PROPRIETARY ACCOUNT OR IN CONNECTION WITH THE ISSUANCE OF INVESTMENT LINKED INSURANCE POLICIES TO NON-TAIWAN POLICY HOLDERS; OR (V) OUTSIDE OF TAIWAN TO TAIWAN RESIDENT INVESTORS FOR PURCHASE BY SUCH INVESTORS OUTSIDE OF TAIWAN, BUT ARE NOT PERMITTED TO OTHERWISE BE OFFERED OR SOLD IN TAIWAN

NOTICE TO INVESTORS IN THE REPUBLIC OF KOREA

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA FOR PUBLIC OFFERING IN KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY THE "FSCMA"). THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, OR OFFERED OR SOLD TO ANY PERSON FOR REOFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS OTHERWISE PERMITTED UNDER THE APPLICABLE LAWS AND REGULATIONS OF KOREA, INCLUDING THE FSCMA AND THE FOREIGN EXCHANGE TRANSACTION LAW AND ITS SUBORDINATE DECREES AND REGULATIONS (COLLECTIVELY, THE "FETL"). WITHOUT PREJUDICE TO THE FOREGOING, THE NUMBER OF BONDS OFFERED IN KOREA OR TO A RESIDENT IN KOREA SHALL BE LESS THAN FIFTY AND FOR A PERIOD IN ON YEAR FROM THE ISSUE DATE OF THE BONDS, NONE OF THE BONDS MAY BE DIVIDED RESULTING IN AN INCREASED NUMBER OF THE BONDS. FURTHERMORE, THE BONDS MAY NOT BE RESOLD TO KOREAN RESIDENTS UNLESS THE PURCHASER OF THE BONDS COMPLIES WITH ALL APPLICABLE REGULATORY REQUIREMENTS (INCLUDING BUT NOT LIMITED TO GOVERNMENT REPORTING REQUIREMENTS UNDER THE FETL) IN CONNECTION WITH THE PURCHASE OF THE BONDS.

NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND

THIS OFFERING MEMORANDUM IS NOT INTENDED TO CONSTITUTE AN OFFER OR A SOLICITATION TO PURCHASE OR INVEST IN THE BONDS. THE BONDS MAY NOT BE PUBLICLY OFFERED, DIRECTLY OR INDIRECTLY, IN SWITZERLAND WITHIN THE MEANING OF THE SWISS FINANCIAL SERVICES ACT ("FINSA") AND NO APPLICATION HAS OR WILL BE MADE TO ADMIT THE BONDS TO TRADING ON ANY TRADING VENUE (EXCHANGE OR MULTILATERAL TRADING FACILITY) IN SWITZERLAND. NEITHER THIS OFFERING MEMORANDUM NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS CONSTITUTES A PROSPECTUS PURSUANT TO (I) THE FINSA OR (II) THE LISTING RULES OF THE SIX SWISS EXCHANGE AG OR ANY OTHER REGULATED TRADING VENUE IN SWITZERLAND AND NEITHER THIS OFFERING MEMORANDUM NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND. THIS OFFERING MEMORANDUM WILL NOT BE REVIEWED NOR APPROVED BY A REVIEWING BODY FOR PROSPECTUSES (PRÜFSTELLE).

NONE OF THIS OFFERING MEMORANDUM OR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE OFFERING, THE ISSUER OR THE BONDS HAVE BEEN OR WILL BE FILED WITH OR APPROVED BY ANY SWISS REGULATORY AUTHORITY. IN PARTICULAR, THIS OFFERING MEMORANDUM WILL NOT BE FILED WITH, AND THE OFFER OF THE BONDS WILL NOT BE SUPERVISED BY, THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY ("FINMA"), AND THE OFFER OF BONDS HAS NOT BEEN AND WILL NOT BE AUTHORIZED UNDER THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES ("CISA"). ACCORDINGLY, INVESTORS DO NOT HAVE THE BENEFIT OF THE SPECIFIC INVESTOR PROTECTION PROVIDED UNDER THE CISA.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE INVESTMENT ADVICE. IT MAY ONLY BE USED BY THOSE PERSONS TO WHOM IT HAS BEEN HANDED OUT IN CONNECTION WITH THE BONDS AND MAY NEITHER BE COPIED NOR DIRECTLY OR INDIRECTLY DISTRIBUTED OR MADE AVAILABLE TO OTHER PERSONS.

TABLE OF CONTENTS

Page

INTRODUCTION 1
- Purpose of this Offering Memorandum 1
- Stanford Health Care 1
- The Taxable Bonds 1
- Plan of Finance 1
- Defined Terms 2
- Security for the Taxable Bonds 2
- Additional Indebtedness 3
- Additional Bonds 3

THE TAXABLE BONDS 4
- General 4
- Summary of Certain Provisions of the Taxable Bonds 4
- Redemption 4

BOOK-ENTRY ONLY SYSTEM 7

SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS 7
- General 7
- The Master Indenture 8
- Security and Enforceability 10

THE PLAN OF FINANCE 13
- The Taxable Bonds 13
- The Refunding Plan 13
- The Tax-Exempt Bonds 13
- Commercial Paper Program 13

ESTIMATED SOURCES AND USES OF FUNDS 14

DEBT SERVICE REQUIREMENTS 15

CONTINUING DISCLOSURE 16

BONDHOLDERS' RISKS 16
- General 16
- COVID-19 Pandemic 17
- Other Significant Risk Areas Summarized 18
- Federal Budget Cuts 23
- Health Care Reform 23
- Nonprofit Health Care Environment 27
- Patient Service Revenues 29
- Regulatory Environment 38
- Business Relationships and Other Business Matters 45
- Affiliations, Merger, Acquisition and Divestiture 51
- Tax-Exempt Status and Other Tax Matters 51
- Other Risk Factors 53

INDEPENDENT ACCOUNTANTS 56
VERIFICATION 56
ABSENCE OF MATERIAL LITIGATION 56
CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS 56
General 56
Certain U.S. Federal Income Tax Consequences to U.S. Holders 58
Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders 59
ERISA CONSIDERATIONS 61
APPROVAL OF LEGALITY 62
RATINGS 62
UNDERWRITING 62
FINANCIAL ADVISOR 63
RELATIONSHIPS AMONG THE PARTIES 63
MISCELLANEOUS 63
OTHER MATTERS 64

APPENDIX A – INFORMATION CONCERNING STANFORD HEALTH CARE A-1
APPENDIX B – CONSOLIDATED FINANCIAL STATEMENTS OF SHC AND SUBSIDIARIES B-1
APPENDIX C – SUMMARY OF MASTER INDENTURE DOCUMENTS C-1
APPENDIX D – FORM OF INDENTURE OF TRUST D-1
APPENDIX E – FORM OF SECOND AMENDED AND RESTATED MASTER INDENTURE OF TRUST E-1
APPENDIX F – DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES F-1

OFFERING MEMORANDUM

$365,100,000
Stanford Health Care
Taxable Bonds

Series 2021

INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Offering Memorandum, including the cover page and the Appendices hereto (the "Offering Memorandum"). 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 Offering Memorandum and not otherwise defined herein or in APPENDIX C have the same meaning as in the Master Indenture (as defined herein) or the Indenture (as defined herein). See APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—DEFINITIONS OF CERTAIN TERMS" and APPENDIX D – "FORM OF INDENTURE OF TRUST."

Purpose of this Offering Memorandum

The purpose of this Offering Memorandum is to set forth information in connection with the offering of $365,100,000 total aggregate principal amount of Stanford Health Care Taxable Bonds, Series 2021 (the "Taxable Bonds"), to be issued by Stanford Health Care ("SHC"), a California nonprofit public benefit corporation.

Stanford Health Care

SHC 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. SHC 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 other communities in the San Francisco Bay Area.

For additional information concerning SHC, its facilities and operations, including certain financial and statistical data, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE."

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

The Taxable Bonds

The Taxable Bonds will be issued pursuant to the terms of an Indenture of Trust, dated as of April 1, 2021 (the "Indenture"), between SHC and U.S. Bank National Association, as trustee (the "Trustee").

Plan of Finance

The issuance of the Taxable Bonds is a component of SHC's financing plan, which involves the issuance of $522,815,000 total aggregate principal amount of bonds for the benefit of SHC. Such bonds will consist of the Taxable

Bonds to be issued by SHC as described in this Offering Memorandum and $157,715,000 total aggregate principal amount of tax-exempt bonds (the "Tax-Exempt Bonds") that SHC expects to be issued for its benefit by the California Health Facilities Financing Authority (the "Authority") concurrently with the issuance of the Taxable Bonds and that are described in a separate offering document.

The proceeds of the Taxable Bonds will be used for the general corporate purposes of SHC, which include the defeasance of certain outstanding revenue bonds previously issued by the Authority for the benefit of SHC. Costs of issuance related to the Taxable Bonds, including underwriters' compensation, will be paid by SHC.

The proceeds of the Tax-Exempt Bonds are expected to be used for the current refunding of two series of outstanding revenue bonds previously issued by the Authority for the benefit of SHC. The issuance of the Taxable Bonds is not contingent on the issuance of the Tax-Exempt Bonds.

Additionally, SHC expects to establish a taxable commercial paper program (the "CP Program"), in the principal amount not to exceed $150,000,000, on or about the date of the issuance of the Taxable Bonds. As of the date of this Offering Memorandum, SHC has not identified a timeline for the issuance of any notes pursuant to the CP Program, and no assurances can be given in that regard. The CP Program, if established, will be described in a separate offering document. The issuance of the Taxable Bonds is not contingent on SHC's establishment of the CP Program or the issuance of any notes pursuant thereto.

See "THE PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Defined Terms

All capitalized terms used in this Offering Memorandum and not otherwise defined herein shall have the same meanings included in APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—DEFINITIONS OF CERTAIN TERMS" or in APPENDIX D – "FORM OF INDENTURE OF TRUST."

Security for the Taxable Bonds

The Taxable Bonds are general obligations of SHC, and are payable from payments made by SHC under the Indenture, from payments to be made by the Obligated Group on Obligation No. 44 to be issued under the Master Indenture, as described herein, and from certain funds held under the Indenture.

The obligation of SHC to make payments under the Indenture with respect to the Taxable Bonds will be further evidenced and secured by an obligation ("Obligation No. 44") to be issued under the Amended and Restated Master Indenture of Trust, as supplemented by the Supplemental Master Indenture for Obligation No. 44, dated as of April 1, 2021 ("Supplement No. 44"), between SHC and the 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. 44, is herein referred to as the "Master Indenture."

The obligations of SHC with respect to the Tax-Exempt Bonds and the CP Program, respectively, will each be evidenced by an Obligation issued by SHC under the Master Indenture which will rank on a parity with all Obligations issued under the Master Indenture, including Obligation No. 44. Obligation No. 44, the Obligation relating to the Tax-Exempt Bonds, the Obligation relating to the CP Program, the outstanding Obligations relating to other indebtedness and obligations of SHC (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, SHC is the only Member of the Obligated Group created pursuant to the Master Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS" herein.

Proposed Amendments to Master Indenture; Deemed Consent. Notwithstanding the effectiveness of the Amended and Restated Master Indenture of Trust, provisions therein providing for certain actions to be taken upon the direction of the Holders of a majority in aggregate principal amount of Outstanding Obligations, rather than upon

the direction of the Holders of 25% of Outstanding Obligations as provided in the Original Master Indenture, will not go into effect until SHC secures the consent of the Holders of 100% in aggregate principal amount of Obligations Outstanding. See APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—MASTER INDENTURE—Defaults 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 Taxable Bonds offered hereunder, the purchasers, Beneficial Owners, and all subsequent holders thereof will be deemed to have consented to amendment of each such direction of holder provision, as set forth in the Master Indenture. Any such consent will be effective on the date of issuance of the Taxable Bonds, will be binding on any subsequent purchaser of any Taxable Bonds, and may not be revoked after the issuance of the Taxable Bonds.

Proposed Second Amended and Restated Master Indenture of Trust; Deemed Consent. In connection with the issuance of the Taxable Bonds, and pursuant to the terms of the Master Indenture, SHC further proposes to amend and restate the Master Indenture in the form of the proposed Second Amended and Restated Master Indenture of Trust included as Appendix E hereto (the "Second Amended and Restated Master Indenture of Trust"). For additional information concerning the proposed Second Amended and Restated Master Indenture of Trust, see "SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS—The Master Indenture—Proposed Amendment and Restatement of the Master Indenture." By purchasing the Taxable Bonds offered hereunder, the Holders, Beneficial Owners, and all subsequent holders of the Taxable Bonds will be deemed to have consented to the Second Amended and Restated Master Indenture of Trust. Any such consent will be effective on the date of issuance of the Taxable Bonds, will be binding on any subsequent purchaser of any Bonds, and may not be revoked after the issuance of the Taxable Bonds.

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

Additional Indebtedness

As described below under "SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS," SHC 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 MASTER INDENTURE DOCUMENTS—MASTER INDENTURE—Covenants—Limitations on Indebtedness."

For a description of certain events that may require the incurrence of additional indebtedness of SHC, see "SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs" in APPENDIX A attached hereto.

Additional Bonds

The Indenture provides that SHC may issue Additional Bonds thereunder, subject to the terms and conditions set forth in the Indenture. All such Additional Bonds shall mature on the maturity date for the Taxable Bonds and shall bear interest at the rate per annum for the Taxable Bonds, and shall be subject to redemption at the same times and at the same redemption prices as the Taxable Bonds. Additional Bonds may be consolidated with the Taxable Bonds upon compliance with certain requirements of the Indenture. Each Additional Bond to be so consolidated shall constitute part of the Taxable Bonds. See APPENDIX D – "FORM OF INDENTURE OF TRUST—Additional Bonds."

Concurrently with the issuance of any Additional Bonds in accordance with the provisions of the Indenture, as described above, Supplement No. 44 and Obligation No. 44 will be amended to increase the principal amount of Obligation No. 44 to an amount equal to the Outstanding par amount of the Taxable Bonds, after taking into account the issuance of such Additional Bonds, and the Master Trustee is directed to take all actions necessary to effect such amendments to Supplement No. 44 and Obligation No. 44. No consent is required from the Holders or Beneficial Owners of the Taxable Bonds or the Trustee, or the Holders of any Outstanding Obligations or the Master Trustee, to effect such amendments.

THE TAXABLE BONDS

The following is a summary of certain provisions of the Taxable Bonds. Reference is made to the Taxable Bonds for the complete text thereof and to the Indenture for a more detailed description of these provisions. The discussion herein is qualified by such reference. See also APPENDIX D – "FORM OF INDENTURE OF TRUST."

General

The Taxable Bonds are being issued pursuant to the Indenture in the aggregate principal amount described on the cover page of this Offering Memorandum. The Taxable Bonds will be delivered in fully registered form without coupons. The Taxable Bonds will be dated the date of issuance and will be payable as to principal, subject to the redemption provisions set forth herein, on the date and in the amount as set forth on the cover hereof. The Taxable Bonds shall be in denominations of $1,000 and integral multiples in excess thereof. Interest on the Taxable Bonds shall be computed upon the basis of a 360-day year consisting of twelve 30-day months.

The Taxable Bonds will be transferable and exchangeable as set forth in the Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Taxable Bonds. Ownership interests in the Taxable Bonds may be purchased in book-entry form only, in denominations of $1,000 or any integral multiple thereof. See "BOOK-ENTRY ONLY SYSTEM" herein. So long as Cede & Co. is the registered owner of the Taxable Bonds, principal, Redemption Price and Make-Whole Redemption Price of and interest on the Taxable Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined in APPENDIX F) for subsequent disbursement to the Beneficial Owners. See APPENDIX F – "DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

If the book-entry system for the Taxable Bonds is ever discontinued, payment of interest on the Taxable Bonds will be made by check mailed on each Interest Payment Date to each Holder thereof as of the close of business on the Record Date at its address as it appears on the bond registration books maintained by the Trustee or, upon the written request of any Holder of Bonds in an aggregate principal amount of at least $1,000,000 as shown in the registration books of the Trustee, who, at least one Business Day prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with written wire instructions for an account within the United States, by wire transfer in accordance with the wire transfer instructions provided by the Holder. Payment of the principal, Redemption Price or Make-Whole Redemption Price of the Taxable Bonds will then be payable upon surrender thereof at the corporate trust office of the Trustee.

Summary of Certain Provisions of the Taxable Bonds

The Taxable Bonds will bear interest at the rates set forth on the cover page of this Offering Memorandum. Payment of the interest on any Taxable Bond shall be made on February 15 and August 15 of each year, commencing August 15, 2021 (each, an "Interest Payment Date") to the Holder thereof as of the Record Date (which will be the first day of the calendar month during which such Interest Payment Date occurs, whether or not a Business Day) for each Interest Payment Date (except with respect to interest in default, for which a special record date and special interest payment date shall be established). See APPENDIX D – "FORM OF INDENTURE OF TRUST" for a description of the terms of the Taxable Bonds.

Redemption

Optional Redemption at Par. On or after the Par Call Date, the Taxable Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of SHC to the Trustee. Such redemption shall be in accordance with the terms of the Taxable Bonds as directed by SHC, at the Redemption Price, which is equal to 100% of the principal amount of Taxable Bonds to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date. "Par Call Date" means February 15, 2051.

Optional Redemption at Make-Whole Redemption Price. Prior to the Par Call Date, the Taxable Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of SHC to the Trustee.

Such redemption shall be in accordance with the terms of the Taxable Bonds as directed by SHC, at the Make-Whole Redemption Price. SHC shall retain an independent accounting firm, an investment banking firm or an independent financial advisor to determine the Make-Whole Redemption Price of the Taxable Bonds to be redeemed and perform all actions and make all calculations required to determine such Make-Whole Redemption Price. The determination of the Make-Whole Redemption Price by such accounting firm, investment banking firm or financial advisor shall be conclusive and binding on the Trustee, SHC and the Holders of the Taxable Bonds. The Trustee and SHC may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor SHC shall have any liability for such reliance.

For purposes of the above paragraph, "Make-Whole Redemption Price" means the greater of (1) 100% of the principal amount of the Taxable Bonds to be redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Taxable Bonds to be redeemed (not including any portion of those payments of interest accrued and unpaid as of the redemption date), discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the Treasury Rate, plus 15 basis points, plus, in each case, accrued and unpaid interest on such Taxable Bonds to, but excluding, the redemption date. Additionally, for purposes of the above paragraph, the following definitions apply:

"Comparable Treasury Issue" means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Taxable Bonds to be redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Taxable Bonds.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations for such redemption date, or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

"Designated Investment Banker" means a Primary Treasury Dealer appointed by SHC.

"Primary Treasury Dealer" means one or more entities appointed by SHC, which, in each case, is a primary United States government securities dealer in the city of New York, New York, and its or their respective successors.

"Primary Treasury Dealer Quotations" means, with respect to each Primary Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Primary Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to (i) the semiannual equivalent yield to maturity or (ii) if no such semiannual equivalent yield to maturity is available, the interpolated yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Notice of Redemption. Notice of redemption shall be sent by SHC to the Trustee by first class mail or using Electronic Means not less than seven Business Days nor more than sixty days prior to the date that notice of redemption is due to be given by the Trustee in accordance with the following sentence. Notice of redemption shall be sent by the Trustee by first class mail or using Electronic Means, not less than twenty days nor more than sixty days prior to the redemption date, to the respective Holders of any Taxable Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. If the Taxable Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by overnight mail to such securities depositories and/or securities information services as shall be designated in a Certificate of SHC. Each notice of redemption shall state the date of such notice, the date of issue of the Taxable Bonds , the redemption date, the Redemption Price or the method for determining the Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP number

(if any), the conditions, if any, to the redemption, and, in the case of Taxable Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice shall also state that, on such date, there will become due and payable on each such Taxable Bond the Redemption Price or Make-Whole Redemption Price (as applicable) thereof, or such specified portion of the principal amount thereof, in the case of a Taxable Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Taxable Bonds be then surrendered.

Failure by the Trustee to give notice in accordance with the Indenture to any one or more of the securities information services or depositories designated by SHC, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to send notice of redemption in accordance with the Indenture to any one or more of the respective Holders of any Taxable Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

SHC may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event.

Rescission of Notice of Redemption. Any notice of optional redemption may be rescinded by written notice given to the Trustee by SHC no later than five Business Days prior to the date specified for redemption. The Trustee shall give notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as notice of such redemption was given.

Selection of Bonds for Redemption. If the Taxable Bonds are registered in book-entry only form and so long as the Securities Depository or its nominee is the sole registered owner of the Taxable Bonds, if less than all of the Taxable Bonds are called for redemption, the particular Taxable Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with the customary procedures and the operational arrangements of the Securities Depository then in effect, but, if such operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Taxable Bonds shall be selected for redemption, in accordance with the customary procedures of the Securities Depository, or by lot.

If the Securities Depository or its nominee is no longer the sole registered owner of the Taxable Bonds, and if less than all of the Taxable Bonds are called for redemption, the Trustee shall select the Taxable Bonds to be redeemed on a pro rata basis.

Effect of Redemption. Moneys for payment of the Redemption Price or Make-Whole Redemption Price of the Taxable Bonds (or portion thereof called for redemption in accordance with the Indenture) shall be held by the Trustee, and, if any conditions specified in the notice of redemption have been satisfied, paid by the Trustee, on the date fixed for redemption designated in such notice. The Taxable Bonds (or portion thereof) so called for redemption shall become due and payable at the Redemption Price or Make-Whole Redemption Price specified in (or pursuant to the method of calculating the Make-Whole Redemption Price specified in) such notice, interest on the Taxable Bonds so called for redemption shall cease to accrue and such Taxable Bonds (or portion thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of such Taxable Bonds shall have no rights in respect thereof except to receive the payment of such Redemption Price or Make-Whole Redemption Price from funds held by the Trustee for such payment.

Mandatory Purchase in Lieu of Redemption. Each Holder or Beneficial Owner, by purchase and acceptance of any Taxable Bond, irrevocably grants to SHC the option to purchase such Taxable Bond, in whole or in part, at any time such Taxable Bond is subject to optional redemption pursuant to the Indenture. Such Taxable Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Taxable Bond. SHC 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 notice of redemption provisions of the Indenture and to select Taxable Bonds subject to mandatory purchase in the same manner as Taxable Bonds called for redemption pursuant to the Indenture. On the date fixed for purchase of any Taxable Bond in lieu of redemption, SHC shall pay the purchase price of such Taxable Bond to the Trustee in immediately available funds, and the Trustee shall pay the same to the Holders of such Taxable Bonds being purchased against delivery thereof. No purchase of any Taxable Bond in lieu of redemption shall operate to extinguish the indebtedness evidenced by such Taxable Bond. No Holder or Beneficial Owner may elect to retain a

Taxable Bond subject to mandatory purchase in lieu of redemption. SHC may exercise its option to purchase Taxable Bonds, in whole or in part, in accordance with the purchase in lieu of redemption provisions of the Indenture.

BOOK-ENTRY ONLY SYSTEM

The Taxable Bonds will be issued in book-entry form. DTC will act as securities depository for the Taxable Bonds. The Taxable Bonds will be issued as fully registered securities registered in the name of Cede & Co., as nominee of DTC, or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Taxable Bonds, in the aggregate principal amount of the Taxable Bonds of each maturity of the Taxable Bonds, and will be deposited with DTC. For additional information regarding DTC and its book-entry only system, and a description of global clearance procedures with respect to the Taxable Bonds, see APPENDIX F hereto.

SHC AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE TAXABLE BONDS (1) PAYMENTS OF PRINCIPAL, REDEMPTION PRICE, INCLUDING MAKE-WHOLE REDEMPTION PRICE OF OR INTEREST OR REDEMPTION PREMIUM ON THE TAXABLE BONDS; (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE TAXABLE BONDS; OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE TAXABLE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFERING MEMORANDUM.

SHC AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON OR REDEMPTION PRICE, INCLUDING MAKE-WHOLE REDEMPTION PRICE, OF THE TAXABLE BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM CUSTOMERS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE CERTIFICATE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE TAXABLE BONDS.

THE INFORMATION CONTAINED HEREIN AND IN APPENDIX F REGARDING CLEARSTREAM AND EUROCLEAR AND THEIR BOOK-ENTRY SYSTEMS HAS BEEN OBTAINED FROM DTC, CLEARSTREAM AND EUROCLEAR, RESPECTIVELY, AND SHC MAKES NO REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS

General

The Taxable Bonds are general obligations of SHC, and are payable from payments made by SHC under the Indenture, from payments to be made by the Obligated Group on Obligation No. 44, and from certain funds held under the Indenture. See "—The Master Indenture" below.

No reserve fund is being established under the Indenture.

The Master Indenture

Joint and Several Obligations. Currently, SHC is the sole Member of the Obligated Group. Under the Master Indenture, SHC, 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. 44 is being issued by SHC 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. 44 in amounts sufficient to pay the principal of and interest on the Taxable Bonds when due. For a discussion of entry into or withdrawal from the Obligated Group, see APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—MASTER INDENTURE—Covenants—Membership in Obligated Group" and "—Withdrawal from Obligated Group."

Outstanding Obligations Under the Master Indenture. Upon the issuance of the Taxable Bonds and the Tax-Exempt Bonds (if issued), and the bond refundings and defeasance in connection therewith, and the establishment of the CP Program (if established), Obligations outstanding under the Master Indenture will secure (i) $2,237,955,000 in aggregate principal amount of indebtedness related to tax-exempt revenue and taxable bonds issued for the benefit of SHC; (ii) SHC's obligations to make payments with respect to notes issued from time to time pursuant to the CP Program and (iii) SHC's obligations to make regularly scheduled payments and, in limited circumstances, settlement payments, under certain existing interest rate swap agreements. For a discussion of the interest rate swap agreements that SHC has entered into, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Arrangements."

Security for Obligations. All Obligations issued and outstanding under the Master Indenture, including Obligation No. 44 which evidences and secures SHC's obligations to make payments under the Indenture, are secured by security interests in the Collateral (described below). Except for the pledge of the Collateral, Obligations issued under the Master Indenture are not secured by a lien on real or personal property of the Members of the Obligated Group. Upon the date of commencement of any bankruptcy proceeding, it is likely that Obligations under the Master Indenture will exceed the value of Collateral of the Members of the Obligated Group. Accordingly, holders of Obligations, including the Trustee, as the Holder of Obligation No. 44, would be unsecured creditors in any bankruptcy proceeding involving a Member of the Obligated Group. 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" herein.

Security Interest in Gross Revenues. Pursuant to the Master Indenture, each Obligated Group Member grants to the Master Trustee a security interest in all its right, title and interest, in and to all Collateral, including Gross Revenues and the Gross Revenue Fund as security for the payment of Required Payments under the Master Indenture. "Collateral" means (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. "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.

Each Member of the Obligated Group agrees pursuant to the Master Indenture that, as long as any of the Obligations remain outstanding under the Master Indenture, all of the Gross Revenues of the Obligated Group will be deposited as soon as practicable upon receipt in one or more deposit accounts designated as the "Gross Revenue Fund," established with one or more designated financial institutions as the Obligated Group Representative will from time to time designate, in writing, for such purpose (each, a "Depository Bank"). SHC has entered into an Account

Control Agreement for the Gross Revenue Fund with a Depository Bank and the Master Trustee (the "Account Control Agreement"). Gross Revenues and amounts in the Gross Revenue Fund are permitted to be used and withdrawn by any Obligated Group Member at any time for any lawful purpose, except as provided in the Master Indenture if an Event of Default has occurred and is continuing. All Gross Revenues withdrawn by an Obligated Group Member from the Gross Revenue Fund as permitted by the Master Indenture will not be subject to the lien of the Master Indenture, nor will any bank account of the Obligated Group Members other than the Gross Revenue Fund. Gross Revenues may be deposited into other bank accounts of the Obligated Group Members before they are deposited into the Gross Revenue Fund or after they are withdrawn from the Gross Revenue Fund, and such other bank accounts are not subject to the lien of the Master Indenture.

The security interest in the Gross Revenues and the Gross Revenue Fund will be perfected to the extent, and only to the extent, that the security interest may be perfected by the filing of a UCC financing statement under the Uniform Commercial Code of the State and the entry into the Account Control Agreement. There may not be a perfected security interest in some or all of the Gross Revenues prior to the deposit of such Gross Revenues into the Gross Revenue fund, nor will there be a perfected security interest in any Gross Revenues after they are withdrawn from the Gross Revenue Fund.

Even if the lien of the Master Indenture is perfected, the lien may not be of first priority. The security interest in Gross Revenues may be subordinated to the interests and claims of others in several circumstances (for instance, liens on the Gross Revenue Fund in favor of Depository Banks; statutory liens; liens in favor of the United States or an agency thereof; where assignment violates existing or future prohibitions on assignment under statute; and liens imposed by courts through the exercise of equitable powers). See APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—MASTER INDENTURE—Covenants—Gross Revenue Fund."

Additional Indebtedness. SHC 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 the Collateral, including the 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 MASTER INDENTURE DOCUMENTS—MASTER INDENTURE—Covenants—Limitation on 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, encumbrance and dispositions of assets and other matters. See APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—MASTER INDENTURE—Covenants."

Amendments. The Obligated Group Members and the Master Trustee may modify the provisions of the Master Indenture in certain instances without the consent of the Holders of Obligations (including the Trustee, as the Holder of Obligation No. 44) and in other instances with consent of the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding, and the required percentage could be obtained from the Holders of Obligations other than Obligation No. 44. See APPENDIX C – "SUMMARY OF MASTER INDENTURE DOCUMENTS—MASTER INDENTURE."

Replacement of Obligation No. 44. Obligation No. 44 will be surrendered by the Trustee and delivered to the Master Trustee for cancellation upon the terms and conditions set forth in the Indenture, which include receipt by the Trustee of: (a) a Request of SHC requesting such surrender and delivery and stating that SHC has become a member of the New Group under the Replacement Master Indenture, that no Event of Default exists or shall be caused thereby and that the Replacement Obligation is being issued to the Trustee under the Replacement Master Indenture; (b) a properly executed Replacement Obligation issued under the Replacement Master Indenture and registered in the name of the Trustee with the same tenor and effect as Obligation No. 44 (in a principal amount equal to the then-Outstanding principal amount of Taxable Bonds), authenticated by the master trustee under the Replacement Master Indenture; (c) an Opinion of Counsel to SHC to the effect that the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of SHC and each of the other members of the New Group; (d) a certified copy of the Replacement Master Indenture; (e) a certificate relating to debt

service coverage or evidence of certain ratings information; and (f) a certificate of the Master Trustee to the effect that Obligation No. 44 has been cancelled. For the specific requirements of the Indenture relating to replacement of Obligation No. 44, see APPENDIX D – "FORM OF INDENTURE OF TRUST—PARTICULAR COVENANTS; REPRESENTATIONS AND WARRANTIES—Replacement of Obligation No. 44 with Obligation Issued Under a Separate Master Indenture."

Proposed Amendment and Restatement of the Master Indenture. In connection with the issuance of the Taxable Bonds, and pursuant to the terms of the Master Indenture, SHC proposes to amend and restate the Master Indenture in the form of the proposed Second Amended and Restated Master Indenture of Trust included as Appendix E hereto. The Second Amended and Restated Master Indenture of Trust will not go into effect until SHC secures the consent of the Holders of a majority in aggregate principal amount of Obligations Outstanding. SHC anticipates that, upon the issuance of the Taxable Bonds and the Tax-Exempt Bonds (if issued), and the bond refundings and defeasance as described under "THE PLAN OF FINANCE" herein, approximately 44% of the Holders of Obligations Outstanding will have consented to the Second Amended and Restated Master Indenture of Trust.

Changes being made in the proposed Second Amended and Restated Master Indenture of Trust include, but are not limited to, the following: (a) replacing the pledge of Gross Revenues with a pledge of gross receivables; (b) increasing the percentage of Liens on Property permitted from 25% of Total Value to 30% of Total Value; (c) changing the basis for calculation of the Debt Service Coverage Ratio from Maximum Annual Debt Service to Annual Debt Service and actions to be taken with respect to noncompliance; (d) modifying the definition of Annual Debt Service and of Income Available for Debt Service; (e) eliminating limitations on Additional Indebtedness and on dispositions of assets; and (f) eliminating certain limitations (i) on merger, consolidation, sale of all or substantially all assets of the Obligated Group and (ii) on entrance into and (except for SHC) withdrawal from the Obligated Group. The foregoing description of the changes being made in the proposed Second Amended and Restated Master Indenture of Trust is provided for quick reference only, and is not intended to be a summary of the complete terms of the Second Amended and Restated Master Indenture of Trust. The Second Amended and Restated Master Indenture of Trust should be read in its entirety for essential information relating to the changes included in the proposed Second Amended and Restated Master Indenture of Trust.

For the full and complete text of the proposed Second Amended and Restated Master Indenture of Trust, see APPENDIX E – "FORM OF SECOND AMENDED AND RESTATED MASTER INDENTURE OF TRUST."

By purchasing the Taxable Bonds offered hereunder, the Holders, Beneficial Owners and subsequent purchasers of the Taxable Bonds will be deemed to have consented to the Second Amended and Restated Master Indenture of Trust.

Security and Enforceability

Limitations on Enforceability. The obligations of the Members of the Obligated Group under Obligation No. 44 and the Master Indenture will be limited in the event of bankruptcy or insolvency, including as described below. Although upon the issuance of the Taxable Bonds, SHC will be the only Member of the Obligated Group, the Master Indenture permits the addition of other Obligated Group Members, as well as the withdrawal of Obligated Group Members, if certain conditions are met. The joint and several obligations described herein of individual Members of the Obligated Group to make Required Payments on the Obligations issued pursuant to and under the Master Indenture may not be enforceable. See "—Enforceability of Obligation No. 44" below.

A Member of the Obligated Group may not be required to make any payment of any Obligation, or portion thereof, or the recipient of such payment may be compelled to return such payment, the proceeds of which were not lent or otherwise disbursed to such Member to the extent that such payment would conflict with, or would not be enforceable, or would be prohibited or avoidable under applicable laws.

The legal right and practical ability of the Trustee to enforce its rights and remedies against SHC under the Indenture and against SHC or any future Member of the Obligated Group under Obligation No. 44, and of the Master Trustee to enforce its rights and remedies against SHC or any future Member of the Obligated Group under the Master Indenture, will depend upon the exercise of various remedies specified by such documents, which may in many

instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

Government Supervision of Nonprofit Corporations. There exists authority under common law and various state statutes that requires termination of the existence of a nonprofit corporation or that subjects a nonprofit corporation to government supervision of its affairs on various grounds, including based on a determination that the corporation has insufficient assets to carry out its stated charitable purposes or based on actions taken that render it unable to carry out its charitable purposes. Actions to terminate the existence of a nonprofit corporation or to subject a nonprofit corporation to governmental supervision may be commenced by the attorney general of a particular state or by other persons who have interests different from those of the general public, such as charitable donors seeking to enforce charitable trusts to ensure application of charitable funds for their intended charitable uses.

Bankruptcy. Should a Member of the Obligated Group become the subject of a bankruptcy case, there could be adverse effects on the holders of the Taxable Bonds that could result in delays or reductions in payments on, or other losses with respect to, the Taxable Bonds.

If a Member of the Obligated Group is in bankruptcy, the parties (including the Trustee, the Master Trustee, and the holders of the Taxable Bonds) would be prohibited from taking any action to collect any amount from such Member or to enforce any obligation of such Member, unless permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee and the Master Trustee from making payments to the holders of the Taxable Bonds from funds in the possession of the Trustee or the Master Trustee. The covenants under the Master Indenture, including the covenant to revise the method of operation of the Obligated Group to attain the required Historical Debt Service Coverage Ratio, may not be enforceable in bankruptcy by any party (including the Trustee, the Master Trustee, and the holders of the Taxable Bonds).

If a Member of the Obligated Group goes into bankruptcy, such Member may not be required to turn over to the Trustee or the Master Trustee any Gross Revenues that have not already been deposited in a Gross Revenue Account, regardless of the provisions of the Master Indenture. In addition, payment to the Trustee or Master Trustee of Gross Revenues held in a Gross Revenue Account may be delayed or may not be made at all, absent an order of the bankruptcy court, which might not be obtained. Any Gross Revenues collected after the commencement of the bankruptcy case would likely not be subject to the lien of the Master Indenture, unless the bankruptcy court granted a continuing lien as adequate protection for a Member's use of cash collateral (i.e. Gross Revenues held in Gross Revenue Accounts).

Interest would cease accruing on Obligations during the pendency of the bankruptcy proceeding if, as is likely the case, the Obligations exceed the value of the Collateral. Thereafter, interest would be paid only if and as provided in a confirmed reorganization plan or by order of the bankruptcy court.

The Trustee and the Master Trustee may be required to return to any Member of the Obligated Group that is bankruptcy any Gross Revenues that became subject to the lien of the Master Indenture within the 90 days (or possibly one year) immediately preceding the filing of the bankruptcy petition. In that event, payments previously made to the holders of the Taxable Bonds during the 90 days (or possibly one year) immediately preceding the filing of the bankruptcy petition may also be avoided as preferential payments, so that the holders would be required to return such payments to the Member of the Obligated Group in bankruptcy.

If a Member of the Obligated Group is in bankruptcy, the obligation of such Member to make Required Payments on behalf of another Member of the Obligated Group may be unenforceable if a court determines that the Member in bankruptcy did not receive reasonably equivalent value in return for assuming the obligation to make Required Payments on behalf of the other Member and the Member in bankruptcy was insolvent at the time the Taxable Bonds were issued, at the time such Member became a Member, or at the time such Member made Required Payments on behalf of another Member. If such obligations of the Member in bankruptcy are unenforceable, then Required Payments previously made to the holders of the Taxable Bonds by such Member on behalf of another Member may also be avoided as fraudulent or voidable transfers. In that event, the holders could be required to return such payments to the Member of the Obligated Group in bankruptcy.

A Member of the Obligated Group that is in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including the Gross Revenues). This lien could have priority over the lien of the Master Indenture, if the bankruptcy court determines that the rights of the Trustee, the Master Trustee, and the holders of the Taxable Bonds are adequately protected. A Member in bankruptcy may also be able to cause some of the Gross Revenues to be released to it, free and clear of the lien of the Master Indenture, as long as the bankruptcy court determines that the rights of the Trustee, the Master Trustee, and the holders of the Taxable Bonds are adequately protected.

A Member of the Obligated Group that is in bankruptcy may be able to alter the terms of the Taxable Bonds, without the consent and over the objection of the Trustee, the Master Trustee, and the holders of the Taxable Bonds. Changes in the terms of the Taxable Bonds may affect the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), as well as other terms or provisions. Changes in the terms of the Taxable Bonds may be effected pursuant to a reorganization plan that is accepted through an affirmative vote of half of the number of holders and by holders of two-thirds of the amount of the Taxable Bonds. Changes in the terms of the Taxable Bonds may also be effected without an affirmative vote holders of the Taxable Bonds and notwithstanding objections of the Trustee, the Master Trustee, and the holders of the Taxable Bonds, if, with respect to the secured part of the Obligations, other conditions are met and holders retain their liens and receive deferred cash payments totaling at least the allowed amount of such secured claims. With respect to the unsecured portion of the Obligations, these Obligations may be classified with other unsecured debt for voting purposes. The terms for repayment of unsecured debt may be altered by a vote of the class accepting the plan or, if other conditions are met and the holder of any claim or interest that is junior to the class of unsecured claims does not receive or retain any property under the plan on account of such junior claim or interest.

A bankruptcy court may approve actions taken in the interests of the Obligated Group that are detrimental to the interests of the Trustee, the Master Trustee, and the holders of the Taxable Bonds, including sales of assets to for-profit institutions or other actions that could adversely affect the exclusion of interest on the Taxable Bonds from gross income for federal income tax purposes. Bankruptcy may also result in piecemeal liquidation of assets, with loss of value for creditors.

There may be delays in payments on the Taxable Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of a Member of the Obligated Group that could result in delays or reductions in payments on the Taxable Bonds, or result in losses to the holders of the Taxable Bonds. Regardless of any specific adverse determinations in a bankruptcy of a Member of the Obligated Group, the fact of a bankruptcy of a Member of the Obligated Group could have an adverse effect on the liquidity and value of the Taxable Bonds.

Enforceability of Obligation No. 44. The joint and several obligations described herein of each Member of the Obligated Group to make Required Payments on Obligation No. 44 may not be enforceable under any of the following circumstances:

(a) to the extent payments on Obligation No. 44 are requested to be made from assets of a Member that are donor-restricted, or that are subject to a direct, express or charitable trust that does not permit the use of such assets for such payments;

(b) if the purpose of the debt created and evidenced by Obligation No. 44 is not consistent with the charitable purposes of the Member from which such payment is requested or required, or if the debt was incurred or issued for the benefit of an entity other than a nonprofit corporation that is exempt from federal income taxes under Section 501(a) of the Code as a 501(c)(3) organization and is not a "private foundation" as defined in Section 509(a) of the Code;

(c) to the extent payments on Obligation No. 44 would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member; or

(d) if and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Members of the Obligated Group on Obligation No. 44 also apply to the other Obligations. If the obligation of a particular Member of the Obligated Group to make payment on an Obligation is not enforceable and payment is not made on such Obligation when due in full, then Events of Default will arise under the Master Indenture.

The various legal opinions delivered concurrently with the issuance of the Taxable Bonds are qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, receivership, 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.

Enforceability of the Indenture. The legal right and practical ability of the Trustee to enforce rights and remedies under the Indenture 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 document, 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.

THE PLAN OF FINANCE

The Taxable Bonds

The proceeds of the Taxable Bonds will be used for the general corporate purposes of SHC, which include the defeasance of $340,000,000 in aggregate principal amount outstanding of the California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2012 Series A (the "2012A Bonds"). SHC will pay all costs of issuance related to the Taxable Bonds, including underwriters' compensation, from its internal funds.

The Refunding Plan

On the date of delivery of the Taxable Bonds, the proceeds of the Taxable Bonds, together with certain other funds, will be deposited with the trustee for the 2012A Bonds, as escrow agent, to be held in an irrevocable escrow fund for the 2012A Bonds established pursuant to an escrow agreement, in such amounts as will be sufficient to pay the regularly scheduled payments of principal of and interest on the 2012A Bonds to, and the redemption price of the 2012A Bonds on, their redemption date. Upon such deposit of Taxable Bond proceeds, the 2012A Bonds will be no longer outstanding. See "ESTIMATED SOURCES AND USES OF FUNDS" and "VERIFICATION" herein.

The Tax-Exempt Bonds

Concurrently with the issuance of the Taxable Bonds, it is expected that SHC will issue the Tax-Exempt Bonds. The proceeds of the Tax-Exempt Bonds are expected to be applied to refund $100,000,000 in aggregate principal amount outstanding of the California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Hospital and Clinics) 2012 Series D and $75,000,000 in aggregate principal amount outstanding of the California Health Facilities Financing Authority Variable Rate Revenue Bonds (Stanford Health Care) 2015 Series B (collectively, the "Prior Bonds"). The issuance of the Taxable Bonds is not contingent upon the issuance of the Tax-Exempt Bonds.

Commercial Paper Program

On or about the date of the issuance of the Taxable Bonds, SHC expects to establish the CP Program in the principal amount not to exceed $150,000,000. As of the date of this Offering Memorandum, SHC has not identified a timeline for the issuance of any notes pursuant to the CP Program, and no assurances can be given in that regard. The issuance of the Taxable Bonds is not contingent upon SHC's establishment of the CP Program or the issuance of any notes pursuant thereto.

ESTIMATED SOURCES AND USES OF FUNDS

The following table assumes the issuance of the Tax-Exempt Bonds and sets forth the estimated sources and uses of funds related to the Taxable Bonds and the Tax-Exempt Bonds (with all amounts rounded to the nearest whole dollar).

	Taxable Bonds	Tax-Exempt Bonds	Total
Estimated Sources of Funds			
Par Amount	$365,100,000	$157,715,000	$522,815,000
Original Issue Premium	–	17,287,141	17,287,141
Equity Contribution	2,338,387	1,346,567	3,684,954
Trustee Held Funds	2,012	–	2,012
Total	$367,440,399	$176,348,708	$543,789,107
Estimated Uses of Funds			
Defeasance of 2012A Bonds	$365,099,191	–	$365,099,191
Refunding of Prior Bonds	–	$175,088,387	175,088,387
Costs of Issuance [(1)]	2,341,208	1,260,321	3,601,529
Total	$367,440,399	$176,348,708	$543,789,107

(1) SHC will pay the costs of issuance, including underwriters' compensation, from an equity contribution.

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each of SHC's fiscal years ending August 31, the amounts required to be paid by SHC for payment of the principal, whether by payment at maturity or upon sinking account installment redemption, and interest on the Taxable Bonds. The table also sets forth debt service on the Tax-Exempt Bonds, assuming their issuance, and on all bonds previously issued for the benefit of SHC that will be outstanding after the issuance of the Taxable Bonds and the Tax-Exempt Bonds and the bond refundings and defeasance in connection therewith.

Year Ending August 31	Taxable Bonds			Total Debt Service on Tax-Exempt Bonds[1]	Total Debt Service on Other Outstanding Bonds[2]	Total Debt Service[1][2]	Aggregate Debt Service per Master Indenture[1][2][3]
	Principal	Interest	Total Debt Service on Taxable Bonds				
2021	$ –	$ 3,223,377	$ 3,223,377	$ 1,380,006	$ 82,860,517	$ 87,463,900	$ 113,349,466
2022	–	11,051,577	11,051,577	4,731,450	81,628,375	97,411,402	115,468,768
2023	–	11,051,577	11,051,577	4,731,450	82,381,625	98,164,652	116,222,018
2024	–	11,051,577	11,051,577	4,731,450	77,847,008	93,630,035	111,687,402
2025	–	11,051,577	11,051,577	4,731,450	81,200,492	96,983,519	115,040,885
2026	–	11,051,577	11,051,577	5,654,300	81,167,750	97,873,627	115,930,993
2027	–	11,051,577	11,051,577	5,684,300	81,062,750	97,798,627	115,855,993
2028	–	11,051,577	11,051,577	5,712,700	81,017,883	97,782,160	115,839,527
2029	–	11,051,577	11,051,577	5,739,500	80,936,492	97,727,569	115,784,935
2030	–	11,051,577	11,051,577	5,764,700	380,898,750	397,715,027	115,772,393
2031	–	11,051,577	11,051,577	5,788,300	70,898,500	87,738,377	115,725,743
2032	–	11,051,577	11,051,577	5,810,300	70,833,008	87,694,885	115,682,252
2033	–	11,051,577	11,051,577	5,830,700	70,799,742	87,682,019	115,669,385
2034	–	11,051,577	11,051,577	5,849,500	70,601,875	87,502,952	115,490,318
2035	–	11,051,577	11,051,577	5,866,700	70,386,100	87,304,377	115,291,743
2036	–	11,051,577	11,051,577	5,882,300	66,046,333	82,980,210	110,967,577
2037	–	11,051,577	11,051,577	5,896,300	66,089,317	83,037,194	111,024,560
2038	–	11,051,577	11,051,577	5,908,700	68,749,325	85,709,602	113,696,968
2039	–	11,051,577	11,051,577	5,919,500	68,780,800	85,751,877	113,739,243
2040	–	11,051,577	11,051,577	5,928,700	68,279,133	85,259,410	113,246,777
2041	–	11,051,577	11,051,577	5,936,300	65,821,567	82,809,444	110,796,810
2042	–	11,051,577	11,051,577	5,942,300	64,698,352	81,692,229	109,679,595
2043	–	11,051,577	11,051,577	5,946,700	65,116,938	82,115,215	110,102,582
2044	–	11,051,577	11,051,577	5,949,500	66,011,533	83,012,610	110,999,976
2045	–	11,051,577	11,051,577	5,950,700	66,621,706	83,623,983	111,611,349
2046	–	11,051,577	11,051,577	5,950,300	67,409,796	84,411,673	112,399,039
2047	–	11,051,577	11,051,577	5,893,300	30,592,300	47,537,177	75,524,543
2048	–	11,051,577	11,051,577	5,830,800	30,592,300	47,474,677	75,462,043
2049	–	11,051,577	11,051,577	5,767,900	521,104,800	537,924,277	75,399,143
2050	–	11,051,577	11,051,577	5,704,600	181,737,300	198,493,477	75,335,843
2051	365,100,000	11,051,577	376,151,577	5,640,900	4,812,500	386,604,977	10,453,400
2052	–	–	–	23,881,800	36,657,500	60,539,300	60,539,300
2053	–	–	–	23,431,200	36,652,750	60,083,950	60,083,950
2054	–	–	–	22,980,600	36,655,500	59,636,100	59,636,100
Total	$ 365,100,000	$ 334,770,687	$ 699,870,687	$ 242,349,206	$3,076,950,616	$4,019,170,510	$3,449,510,621

(1) Assumes the Tax-Exempt Bonds will be remarketed upon their August 15, 2025 mandatory tender date and interest will be payable at the assumed rate of 2.00% until maturity.

(2) Assumes interest on all variable rate bonds is payable at the assumed rate of 2.00% to maturity; excludes swap cash flows and debt service on the 2012A Bonds and the Prior Bonds. For more information concerning other outstanding bonds of SHC, see Note 9 of the audited consolidated financial statements of SHC included as Appendix B to this Offering Memorandum.

(3) Pursuant to the terms of the Master Indenture, reflects smoothed debt service over 30 years on Balloon Indebtedness; assumes the Taxable Bonds, the Authority's 2020 Series A bonds issued for the benefit of SHC, SHC's Series 2020 taxable bonds and SHC's Series 2018 taxable bonds have level debt service over 30 years at the assumed rate of 2.62%.

CONTINUING DISCLOSURE

SHC has entered into continuing disclosure undertakings in connection with tax-exempt bonds previously issued for the benefit of SHC, and will enter in to a continuing disclosure undertaking in connection with the issuance of the Tax-Exempt Bonds, if issued (collectively, the "Continuing Disclosure Undertakings"). Holders and prospective purchasers of the Taxable Bonds may obtain copies of the information provided by SHC under the Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). Each Continuing Disclosure Undertaking terminates when the related tax-exempt bonds are paid or deemed paid in full.

SHC covenants in each Indenture that, unless otherwise available on EMMA, or any successor thereto or to the functions thereof, copies of SHC's annual audited consolidated financial statements and certain quarterly unaudited consolidated financial information will be posted on SHC's website or with Digital Assurance Certification, LLC, or filed with the related Trustee. A breach of this Indenture covenant does not constitute an Event of Default under the Indenture. The sole and exclusive remedy for a breach of this covenant is specific performance, and no person, including any Holder or Beneficial Owner of the Taxable Bonds, may recover monetary damages thereunder under any circumstances. See APPENDIX D – "FORM OF INDENTURE OF TRUST—Certain Covenants—Continuing Disclosure."

BONDHOLDERS' RISKS

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

General

Except as noted under "SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS," the Taxable Bonds are payable from payments made pursuant to the Indenture and from funds provided under Obligation No. 44 and the Indenture. **No representation or assurance can be made that revenues will be realized by SHC in amounts sufficient to make such payments and hence the debt service on the Taxable Bonds.**

SHC 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 is subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare & 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, timing 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 audits, 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.*, accountable care organizations ("ACOs"), value based purchasing, bundled payments and other health reform payment mechanisms, including one or more variants of a "single-payor" system), future 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 SHC and any future Member of the Obligated Group under the Indenture and Obligation No. 44 and, consequently, on the Taxable Bonds. In addition, the tax-exempt status of SHC and any future Member of the Obligated Group, and, therefore, of tax-exempt debt issued for the benefit of the Obligated Group Members, could be adversely affected by, among other things, an adverse determination by a governmental entity, noncompliance with governmental regulations or legislative changes, including changes resulting from current health care reform legislation or initiatives. See "—Health Care Reform" and "—Tax-Exempt Status and Other Tax Matters" below.

COVID-19 Pandemic

SHC's business and financial results may be harmed by an international, national or localized outbreak of a highly contagious or epidemic disease. The current pandemic of the novel coronavirus ("COVID-19") is having numerous and varied medical, economic, and social impacts, any and all of which may adversely affect SHC's business and financial results.

National, state, and local governments have taken, and may continue to take, various actions, including the passage of laws and regulations, on a wide array of topics, in an attempt to slow the spread of COVID-19 and to address the health and economic consequences of the pandemic. Many of these governmental actions have caused substantial changes in the way health care is provided. It is not clear how long such measures will remain in place.

Operational Disruptions. The COVID-19 pandemic could materially adversely affect SHC's business operations, financial condition and financial performance.

During the pandemic in response to orders and guidance of national, state and local public health officials, health care providers cancelled or delayed appointments and procedures from time to time to anticipate or accommodate surges in COVID-19 patient volumes, adversely affecting revenues and expenses of health care providers. Restrictions on elective or other procedures may be re-introduced in the event of surges in COVID-19 infection rates that threaten system capacity. Business disruptions could also include temporary closures of the health care facilities and the facilities of suppliers and manufacturers, and a reduction in the business hours of health care facilities. Job losses attributable to the COVID-19 pandemic could result in a reduction of persons insured under commercial health benefit plans, and an increase of persons insured by government health programs. In addition, health care providers could be required to provide significant amounts of uncompensated care. Changes in operations may result in additional costs being incurred related to adjustments to the use of facilities and to staffing, including overtime wages, wages paid to employees who are unable to work due to quarantine, and utilization of more expensive contract staff to provide care. Any one or more such disruptions could result in a material adverse effect on SHC.

Economic and Market Disruption. In addition, the COVID-19 pandemic has affected, and is expected to continue to affect, travel, commerce and financial markets in the United States and globally and is widely expected to affect economic growth worldwide. The COVID-19 pandemic has resulted in volatility in the U.S. and global financial markets, and significant realized and unrealized losses in investment portfolios. Financial results, generally, and liquidity, in particular, may be materially diminished. Access to capital markets may be hindered and increased costs of borrowing may occur as a result. The continued spread of COVID-19 infections and containment and mitigation efforts could have a material adverse effect on the operations of the State, national and global economies.

Governmental Relief. In response to the COVID-19 emergency, on March 13, 2020, President Trump declared a "national emergency" under both the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988, which allows access to disaster relief funds to address the COVID-19 pandemic and related economic dislocation, and the National Emergencies Act, which allows DHHS to waive certain guidelines related to Medicare, Medicaid and the Children's Health Insurance Program (all of which are described in greater detail below) to address the COVID-19 pandemic. The U.S. Congress has also passed several federal stimulus packages to address the COVID-19 crisis, including (1) the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020 ("CPRSA Act"), (2) the Families First Coronavirus Response Act ("Families First Act"), (3) the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), (4) the Paycheck Protection Program and Health Care Enhancement Act ("Enhancement Act"), (5) the coronavirus response and relief portions of the Consolidated Appropriations Act, 2021 ("CAA") and (6) the American Rescue Plan Act of 2021 (described below).

On March 11, 2021, President Biden signed into law the American Rescue Plan Act of 2021 ("ARPA"). The ARPA included funding related to COVID-19 directed at detecting, diagnosing, tracing, and monitoring COVID-19 infections; establishing community vaccination centers and mobile vaccine units; promoting, distributing, and tracking COVID-19 vaccines; COVID-19 vaccine research, development, manufacturing, production, and purchase expenses; awards to community health centers; and reimbursing rural hospitals and facilities for healthcare-related expenses and lost revenues attributable to COVID-19. Additional funding was allocated to the DHHS Office of Inspector General ("OIG") for oversight activities related to COVID-19 funding. The ARPA bolstered the ACA by increasing the

eligibility for, and amount of, premium tax credits to purchase coverage through an exchange and by creating cost-sharing support for unemployed individuals that are enrolled in a qualified health plan. Medicaid and CHIP programs will be required to cover without cost sharing COVID-19 vaccines, testing and treatment for one year after the end of the public health emergency and extends the requirement to provide treatment and prevention to those individuals without cost sharing. The Federal Medical Assistance Percentage ("FMAP") is set at 100% for amounts expended for COVID-19 vaccines and vaccine administration and permits states to extend coverage for women enrolled in Medicaid or CHIP for up to twelve months following the birth of a child. The ARPA also increases the FMAP by 5% for eight calendar quarters to incentivize states to expand their Medicaid program. Finally, the ARPA provides subsidies to cover 100% of health insurance premiums under the Consolidated Omnibus Budget Reconciliation Act through September 30, 2021.

The federal stimulus packages are designed to provide economic relief and other support for individuals and businesses, including hospitals and other health care providers. Federal stimulus provisions that may alleviate some of the financial strain on hospitals and other health care providers include, among others: (1) a $175 billion "Public Health and Social Services Emergency Fund" to reimburse eligible health care providers for "health care related expenses or lost revenues that are attributable to coronavirus" ("Provider Relief Fund"), funded through CARES Act and Enhancement Act and CAA appropriations, (2) an increase in the federal Medicaid assistance percentage for state Medicaid programs by 6.2%, and (3) various other Medicare and Medicaid policy changes that temporarily boost Medicare and Medicaid reimbursement or provide for additional flexibility in patient care during the COVID-19 emergency period. The timing, adequacy and other ultimate effects of any federal or state stimulus relief programs on SHC, or the economy generally, cannot be predicted at this time. Although the federal government may consider future COVID-19 emergency response and relief legislation, the content and passage of any such legislation is uncertain.

The retention of funds from certain COVID-19 stimulus programs, including the Provider Relief Fund, is conditioned on eligibility and the acceptance of terms and conditions, and may be subject to other guidelines or requirements that may change from time to time. Additional guidance or clarifications concerning COVID-19 stimulus programs, including reporting, recordkeeping and repayment requirements, may be announced from time to time. Failure to comply with such guidelines or requirements could result in recoupment, False Claims Act liability, or other penalty.

On January 15, 2021, DHHS issued reporting instructions on the use of Provider Relief Fund distributions ("PRF Reporting Instructions"), which superseded previous reporting instructions. The PRF Reporting Instructions were issued to reflect changes to the reporting process in accordance with the CAA. The PRF Reporting Instructions direct health care providers receiving more than $10,000 in Provider Relief Fund payments to provide expenditure reports for their Provider Relief Fund payments to the Health Resources and Services Administration ("HRSA"). DHHS may release revised or additional Provider Relief Fund requirements or guidance in the future. Any future change to the formula for calculating lost revenues set forth in the PRF Reporting Instructions could have a potentially significant impact on whether a health care provider must repay a portion of its Provider Relief Fund payments. If unable to attest to or comply with current or future terms and conditions, SHC's ability to retain some or all of the distributions received may be impacted. For a discussion of whether SHC may be required to repay Provider Relief Funds or any other stimulus program funding that it has recognized as other operating revenue, see APPENDIX A – "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE—Coronavirus Disease ("COVID-19") Pandemic."

See also "—Business Relationships and Other Business Matters—Infectious Disease Outbreak" below.

Other Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of hospitals and health systems similar to those operated by SHC 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 SHC or any future Member of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Indenture and Obligation No. 44.

Federal Health Care Reform and Deficit Reduction. The Patient Protection and Affordable Care Act, as enacted in March 2010 and as subsequently amended (the "ACA"), impacts almost all aspects of hospital and provider operations and health care delivery, and has changed and is changing how health care services are covered, delivered, and reimbursed. These changes will result in new payment models with the risk of lower hospital reimbursement from Medicare, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences. While most providers will receive reduced payments for care, millions of previously uninsured Americans may have coverage. "Health insurance exchanges" could fundamentally alter the health insurance market and negatively impact hospital providers, enabling insurers to aggressively negotiate rates.

In recent years, federal policymakers have undertaken various efforts to reduce the federal deficit, principally by reducing federal spending on entitlement programs, including Medicare and Medicaid. Additional attempts to curb federal entitlement program spending are likely, and federal deficit reduction efforts would likely curb federal Medicare and Medicaid spending further to the detriment of hospitals, physicians and other health care providers. From time to time, there may be legislative or judicial efforts to repeal or substantially modify provisions of the ACA. See "—Health Care Reform" below.

Debt Limit Increase. Through legislation, the federal government has created a debt "ceiling" or limit on the amount of debt that may be issued by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with discussions concerning the authorization for an increase in the federal debt ceiling. Failure by Congress to increase the federal debt limit may impact the federal government's ability to incur additional debt, to pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs.

Management of SHC is unable to determine at this time what impact any future failure to increase the federal debt limit may have on the operations and financial condition of SHC, although such impact may be material. Additionally, the market price or marketability of the Taxable Bonds in the secondary market may be materially adversely impacted by any failure to increase the federal debt limit.

Tax Reform. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on tax-exempt debt issued for the benefit of the Obligated Group Members under federal or state law or otherwise prevent beneficial owners of such tax-exempt debt from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Taxable Bonds.

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.

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

General Economic Conditions, Bad Debt, Charity Care and Investment Performance. Health care providers are economically influenced by the environment in which they operate. Any national economic difficulties may constrain corporate and personal spending, limit the availability of credit and increase the national debt and

federal and certain state government deficits. To the extent that unemployment rates are high, employers reduce their workforces and their budgets for employee health care coverage, or private and public insurers seek to reduce payments to health care providers or curb utilization of health care services, health care providers may experience decreases in insured patient volume and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Economic downturns and lower funding of federal Medicare and state Medicaid and other state health care programs may increase the number of patients who are unable to pay for some or all of their medical and hospital services. These conditions may give rise to increases in health care providers' uncollectible accounts, or "bad debt," uninsured discount and charity care and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Investment losses (even if unrealized) may trigger debt covenant violations and may jeopardize hospitals' economic security. Losses in pension and other postretirement benefit funds may result in increased funding requirements for hospitals and health systems. 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 or be delayed. These factors may have a material adverse impact on hospitals and other health care providers. For a discussion of these risks with regard to SHC, in particular SHC's recent results of operations and statement of financial position and performance of SHC's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION."

Interest Rate Swaps and Hedge Risk. Interest rate swaps have experienced, from time to time, 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 SHC has entered into, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Arrangements."

Nonprofit Health Care Environment. The significant tax benefits received by nonprofit, tax-exempt hospitals have increasingly caused the business practices of such hospitals to be subject to scrutiny by public officials and the press, and to political and legal challenges of the ongoing qualification of such organizations for tax-exempt status. Multiple governmental authorities, including Congress, the Internal Revenue Service (the "IRS"), state attorneys general, and state legislatures have held hearings and carried out audits regarding the conduct of tax-exempt organizations, including tax-exempt hospitals. Citizen organizations, such as labor unions and patient advocates, have also focused public attention on the activities of tax-exempt hospitals and health systems and raised questions about their practices. The IRS imposes certain reporting requirements on hospitals and health systems, including through Schedule H, Schedule J and Schedule K of the IRS Form 990 ("Form 990"). Proposals to stiffen 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. These challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could materially change the operating environment for nonprofit providers and have a material adverse effect on SHC. 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 SHC in particular, could have a material adverse effect on SHC. See "—Tax-Exempt Status and Other Tax Matters" below.

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and expectations of physicians and patients require constant and often significant capital investment. In California, seismic safety standards mandated by the State 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 exceed capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of credit market dislocations.

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 HEALTH CARE—SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs."

Government "Fraud" Enforcement. "Fraud" in government funded health care programs is of significant concern to the federal government and state regulatory agencies overseeing health care programs, 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 licensing, billing, accounting, recordkeeping, medical staff oversight, medical necessity determinations, quality assurance, 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 may carry significant sanctions. The government periodically conducts widespread investigations covering categories of services or certain accounting, coding or billing practices.

Violations and Sanctions. The government and/or private "whistleblowers" often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal, monetary and other penalties, including suspending 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 compliance with 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 for alleged intentional misconduct, fraud or false claims are not uncommon in the health care industry. These risks are generally uninsured. Government enforcement and private whistleblower suits may continue to increase in the hospital and health care sector. Many large hospital and other health care provider systems are likely to be adversely impacted by actions or claims of this kind.

State Medicaid Programs. State Medicaid programs, known as Medi-Cal in California, are an important payor source for many hospitals and are likely to become a proportionately larger source of revenue in those states that have chosen to expand Medicaid to significant numbers of uninsured Americans. These programs often pay hospitals and physicians at levels that may be below the actual cost of the care provided. As Medicaid programs are partially funded by states, the often precarious financial condition of states may result in lower funding levels and/or payment delays in the future. These could have a material adverse impact on hospitals and other health care providers.

Personnel Shortage. From time to time, shortages of physicians and nursing and other technical personnel occur, which may impact hospitals and health care systems. Various studies have predicted that physician and nurse shortages will become more acute over time, as practitioners retire and patient volume exceeds the growth in new professionals. As reimbursement amounts are reduced to health care facilities and organizations that employ or contract with physicians, nurses and other health care professionals, pressure to control and possibly reduce wage and benefit costs may further strain the supply of those professionals. In California, regulation of nurse staff ratios can intensify the potential shortage of nursing personnel. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians, billing coders 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 developments could result in higher health care costs, significant capital investments, reductions in patient populations, lower utilization of hospital service and/or new sources of competition for hospitals.

Costs and Restrictions from Governmental Regulation. Nearly every aspect of hospital operations 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, higher staffing and training requirements, enforcement and liability risks, and significant and sometimes unanticipated costs.

Proliferation of Competition. Hospitals increasingly face competition from specialty providers of care and ambulatory care facilities. This 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 publicly available 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. At the same time, health care organizations will be under increasing pressure to reduce the cost of delivering care to patients, including the cost of salary and benefits, in order to compete in a transparent price market. Workforce disruption may negatively impact hospital revenues and reputation. See APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—EMPLOYEES."

Pension and Benefit Funding. 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. Plans are often underfunded or may become underfunded, and funding obligations, in some cases, may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes.

Organizations that are controlled by or under common control with other entities may be jointly and severally liable for the defined benefit pension plan obligations of these entities, by virtue of the "controlled group" rules under the Internal Revenue Code of 1986, as amended (the "Code") and the Employee Retirement Income Security Act of 1974, as amended. To the extent that a plan sponsor is unable to or does not meet the plan's minimum funding standards or if there are unfunded liabilities upon plan termination, members of the controlled group are jointly and severally liable, and any excise tax applicable to the unpaid required minimum funding contributions can be levied against the controlled group. The rules permit the Pension Benefit Guaranty Corporation ("PBGC"), the federal agency charged with insuring and monitoring defined benefit plans, to impose a lien on the controlled group if required minimum funding contributions and unpaid amounts total more than $1 million. The PBGC also has the authority to recover from the members of the plan sponsor's controlled group amounts that the PBGC pays, or assumes the obligation to pay, to plan participants and beneficiaries in connection with a termination of an underfunded plan. The PBGC may also attach a lien to the assets of the plan sponsor's controlled group members to secure its claims for recovery.

SHC sponsors a defined benefit pension plan, which is frozen to new participants, and has other pension-related obligations with respect to its workforce. SHC is also a member of a controlled group that sponsors two

additional defined benefit plans, one of which has been terminated effective February 28, 2021. See APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—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 or insurance costs, 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.

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

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

Federal Budget Cuts

Past federal legislation and policy aimed at federal deficit reduction have resulted in across-the-board federal program spending reductions, including yearly reductions in Medicare reimbursement rates. The CARES Act and CAA temporarily suspended the 2% Medicare sequestration cuts from May 1, 2020 through March 31, 2021 but further extended these reductions through 2030. See "—Patient Service Revenues" below.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have upon SHC. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. If and to the extent Medicare and/or Medicaid spending is reduced under either scenario, this may have a material adverse effect upon the financial condition of SHC. Ultimately, these reductions or alternatives could have a disproportionate impact on hospital providers and could have a material adverse effect on the financial condition of SHC.

Health Care Reform

The discussion herein describes risks associated with certain existing federal and state laws, regulations, rules, and governmental administrative policies and determinations to which SHC and the health care industry are subject. While these are regularly subject to change, many of the existing provisions were enacted by or promulgated pursuant to the ACA, to which opposition has been expressed by certain Republican leaders of Congress. Additionally, in December 2018, a Texas federal district court judge, in the case of *Texas v. Azar,* declared the ACA unconstitutional, reasoning that the individual mandate tax penalty was essential to and not severable from the remainder of the ACA. The case was appealed to the United States Court of Appeals for the Fifth Circuit and, on December 18, 2019, that court affirmed the district court's decision but remanded the case to the district court for further consideration of the severability issue and to provide additional analysis of current provisions of the ACA. Oral argument was heard on November 10, 2020, but a ruling has not yet been issued. In a February 10, 2021 letter to the Supreme Court, the Department of Justice reversed its earlier position and stated its position that the ACA is constitutional. The ACA will remain law while the case proceeds; however, uncertainty remains as to whether any or all of the ACA could be struck down, which creates operational risk for the health care industry. It is not possible to predict with any certainty whether or when the ACA or any specific provision or implementing measure will be repealed, withdrawn or modified in any significant respect, but a unified administration and majority in both chambers

of Congress could enact legislation, withdraw, modify or promulgate rules, regulations and policies, or make determinations affecting the health care industry, including SHC, any of which individually or collectively could have a material adverse effect on the operations, financial condition and financial performance of SHC.

There can be no assurances that any existing health care laws and regulations will remain in their current form. Further, there can be no assurances that any potential changes to the laws and regulations governing health care would not have a material adverse financial or operational impact on SHC. Therefore, the following discussion should be read with the understanding that significant changes could occur in 2021 and beyond in many of the statutory and regulatory matters discussed.

Federal Health Care Reform. As a result of the ACA, substantial changes have occurred and are anticipated to continue to occur in the United States health care system. Generally, the ACA affects 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. Because of the complexity of the ACA generally, additional legislation may be considered and enacted over time. The ACA has also required, and will continue to require, the promulgation of substantial regulations with significant effects on the health care industry. Thus, the health care industry has been and continues to be the subject of significant new statutory and regulatory requirements and, consequently, to structural and operational changes and challenges for a substantial period of time. The full ramifications of the ACA may also become apparent only over additional time and through later regulatory and judicial interpretations. Portions of the ACA have already been limited and nullified as a result of legislative amendments and judicial interpretations, while others have been upheld after being challenged, and future executive or legislative actions and legal challenges may further change its impact. The uncertainties regarding the implementation and continued effect of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

Previously, Republican leaders of Congress repeatedly cited health care reform, and particularly repeal and replacement of the ACA, as a key goal. The repeal effort had focused on individual and employer mandates, exchanges, insurance industry regulations, Medicaid expansion, and the taxes to pay for these elements of the ACA. A repeal could result in additional pressure on Medicaid and Medicare funding and could have the effect of reducing the availability of health insurance and Medicaid coverage to individuals who were previously insured, resulting in greater numbers of uninsured individuals, and could otherwise materially adversely affect SHC. While no full repeal bills have passed both chambers of Congress, the Tax Cuts and Jobs Act, signed into law in late 2017, effectively eliminated a key provision of the ACA – a tax penalty associated with failing to maintain health coverage by reducing the penalty to zero dollars effective January 1, 2019. It is not possible to predict all effects of the elimination of the individual mandate penalty.

As of the date of this Offering Memorandum, no proposed bill seeking to wholly repeal the ACA has passed both chambers of Congress. It is not possible to predict with any certainty whether or when the ACA or any specific provision or implementing measure will be repealed, withdrawn or modified in any significant respect, but a unified administration and majority in both chambers of Congress could enact legislation, withdraw, modify or promulgate rules, regulations and policies, or make determinations affecting the health care industry and SHC, any of which individually or collectively may have a material adverse effect on the operations, financial condition and financial performance of SHC and any future Members of the Obligated Group. In addition, any repeal or modification of the ACA could reduce the number of individuals qualifying for treatment as Medicaid patients, resulting in SHC's care for greater numbers of uninsured individuals.

Executive branch actions can also have a significant impact on the viability of the ACA. CMS has taken steps to streamline the process by which states obtain waivers of Medicaid coverage mandates. CMS has previously granted section 1115 demonstration waivers providing for work and community engagement requirements for certain Medicaid eligible individuals. CMS has also released guidance to states interested in receiving their Medicaid funding through a block grant mechanism. If implemented, it is anticipated this will lead to reductions in coverage, and likely increases in uncompensated care, in states where these demonstration waivers are granted.

In June 2018, the Department of Labor published a final rule enabling the formation of group or association health plans ("AHPs"). The final rule is intended to expand access to group health coverage by permitting businesses, sole proprietors and self-employed workers to form associations to sponsor AHPs based on common geography,

industry or trade, if certain criteria are met; however, the final rule also eliminates certain requirements for a health plan under the ACA. In March 2019, a federal district court judge invalidated and remanded the final rule to the Department of Labor. The government has appealed this decision, and the U.S. Court of Appeals for the D.C. Circuit heard oral arguments in November 2019. The Court has agreed to hold the case in abeyance while the Biden administration considers the policy. It is unclear how the increased federal oversight of state health care or the development of AHPs may affect future state oversight or affect SHC.

Under the ACA, hospitals are required to make public a list of their standard charges, and effective January 1, 2019, CMS has required that this disclosure be in machine-readable format and include charges for all hospital items and services and average charges for diagnosis-related groups. On November 27, 2019, CMS published a final rule on "Price Transparency Requirements for Hospitals to Make Standard Charges Public." This rule took effect on January 1, 2021 and requires all hospitals to also make public their payor-specific negotiated rates, minimum negotiated rates, maximum negotiated rates, and cash for all items and services, including individual items and services and service packages, that could be provided by a hospital to a patient. Failure to comply with these requirements may result in daily monetary penalties to the hospital.

The final rule may result in competitively sensitive rate information becoming available to competing hospitals and insurers as well as employer sponsors of group health plans, which could lead to market distortions and possible anti-competitive effects that could impact hospital rates and revenue. Publication of hospital standard charges (including negotiated rates) as required may result in changes to consumer choice in a manner that may negatively impact SHC. Accordingly, compliance with these requirements could have a material adverse financial or operational impact on SHC.

As part of the CAA, Congress passed legislation aimed at preventing or limiting patient balance billing in certain circumstances. The CAA addresses surprise medical bills stemming from emergency services, out-of-network ancillary providers at in-network facilities, and air ambulance carriers. Effective January 1, 2022, the legislation will prohibit surprise billing when out-of-network emergency services or out-of-network services at an in-network facility are provided, unless informed consent is received. In these circumstances, providers will be prohibited from billing the patient for any amounts that exceed in-network cost-sharing requirements. The legislation requires DHHS, as well as the Department of the Treasury, and Department of Labor to issue implementing regulations. There can be no assurance that the legislation or implementing regulations will not materially adversely affect SHC.

While the future health care landscape remains relatively unclear, the changes in the health care industry brought about by the ACA thus far may have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including SHC. For example, under the ACA, 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 penalty on certain individuals who do not purchase insurance could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. However, these benefits may be offset to the extent that Medicaid expansion, which is optional on a state-by-state basis, is either not pursued or results in a shifting of significant numbers of commercially-insured individuals to Medicaid or other government programs, or other health insurance options on exchanges are limited or unaffordable, or as a result of the cost containment measures and pilot programs that the ACA requires. A negative impact to the hospital industry overall will likely result from currently scheduled substantial cumulative reductions in Medicare payments. Currently, the ACA's cost-cutting provisions to the Medicare program include reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions. Industry experts also expect that private insurers and payors may follow with similar actions.

Beginning in 2014, the ACA created state "health insurance exchanges" in which health insurance can be purchased by certain groups and segments of the population, expanded the availability of subsidies and tax credits for premium payments by some consumers and employers, and required that certain terms and conditions be included by commercial insurers in contracts with providers. In addition, the ACA imposed many new obligations on states related to health insurance. It is unclear how the increased federal oversight of state health care may affect future state oversight or affect SHC. The health insurance exchanges may have positive impact for hospitals by increasing the availability of health insurance to individuals who were previously uninsured. 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 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. Because the exchanges are still relatively new, the effects of these changes upon the financial condition of any third party payor that offers health insurance, rates paid by third-party payors to providers and, thus, the revenues of SHC, and upon the operations, results of operations and financial condition of SHC cannot be predicted. Legislative proposals to repeal or replace the ACA published to date have focused largely on reorganizing the health exchange system created under the ACA and reorganizing the individual, corporate and public funding obligations associated with health coverage enrollment.

High-deductible insurance plans have become more common in recent years, and the ACA has encouraged the increase in high-deductible insurance plans as the health care exchanges include a variety of plans, several of which offer lower monthly premiums in return for higher deductibles. Many plans offered on the exchanges have high deductibles. High-deductible plans may contribute to lower inpatient volumes as patients may forgo or choose less expensive medical treatment to avoid having to pay the costs of the high deductibles. There is also a potential concern that some patients with high-deductible plans will not be able to pay their medical bills as they may not be able to cover their high deductible. Employers have implemented a variety of strategies to offset high deductibles under these plans, including offering supplemental voluntary insurance products, such as per-diem hospitalization, critical illness or cancer insurance policies and/or enabling employees to contribute to health savings accounts.

The ACA affects some health care organizations differently from others, depending, in part, on how each organization has adapted 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 authorized a value-based purchasing system for hospitals under which a percentage of payments are contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The ACA has also established a mechanism by which the government develops and tests various demonstration programs and pilot projects and other voluntary and mandatory programs to evaluate and encourage new provider delivery models and payment structures, including ACOs, and bundled provider payments.

With respect to charity care, the ACA contains many features from previous tax-exempt reform proposals, including a set of sweeping changes applicable to charitable hospitals exempt under Section 501(c)(3) of the Code. The ACA: (i) imposes new eligibility requirements for 501(c)(3) hospitals, coupled with an excise tax for failures to meet certain of those requirements; (ii) requires mandatory IRS review of the hospitals' entitlement to exemption; (iii) sets forth new reporting requirements, including information related to community health needs assessments and audited financial statements; (iv) requires hospitals to adopt and publicize a financial assistance policy, limit charges to patients who qualify for financial assistance to the amounts generally billed to insured patients and prohibits the use of gross charges, and control the billing and collection processes; and (v) imposes further reporting requirements on the Secretary of the Treasury regarding charity care levels. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.

California Health Care Reform. The State has enacted several laws intended to implement the ACA within the required federal timeframes. Among the steps taken to date to implement or advance the ACA, the State established a state health insurance exchange which operates under a brand name, "Covered California;" the State approved expansion of Medi-Cal coverage, effective in January 2014, to include adults with incomes up to 138% of the federal poverty level who are under age 65, not pregnant and not otherwise currently eligible for Medi-Cal; and legislation was enacted prohibiting insurers from denying health coverage based on preexisting conditions. The State also expanded Medi-Cal coverage to any qualifying individual who is under 19 years of age, regardless of immigration status. As of January 2020, California extended health care benefits to individuals 19 to 25 years of age, regardless of their immigration status, increase eligibility for subsidies to purchase health plans through Covered California, and implement a state version of the individual mandate. In addition, the State is also running a dual-eligibles pilot program with federal funding, called the "Cal MediConnect Program."

Covered California announced that nearly 1.54 million consumers selected a health plan for 2020 coverage during open enrollment. It is currently estimated that Medi-Cal covers over 13 million Californians, including nearly four million adults. California has implemented a state individual mandate that requires Californians to have health coverage or pay a penalty. Beginning in 2020, California is providing temporary additional financial assistance to eligible consumers with household income up to 600% of the federal poverty level through plan year 2022. While management cannot predict the effect of these changes to the Medicaid program on operations, results from operations

or the financial condition of the Obligated Group, historically Medicaid has reimbursed at rates below the actual cost of care. Therefore, increases in the overall proportion of Medicaid patients poses a financial risk to SHC. The State expanded Medi-Cal under the ACA, and it is uncertain to what extent the adverse reimbursement effects of increased Medi-Cal volume may be mitigated by a reduction in the volume of services that otherwise would have been provided as uncompensated care. Furthermore, there can be no assurance that legislation will not be adopted that would materially alter federal financing to the states in support of the Medicaid program, and there can be no assurance that any such legislation will not materially adversely affect SHC. Furthermore, attempts to balance or reduce the federal budget, along with balanced-budget requirements in the State, will likely negatively impact Medicaid funding. Payments made to health care providers are subject to change, including changes in the methods for calculating payments, the amount of payments and the types of services that will be covered. Coverage of persons under Medicaid could also be reduced.

Nonprofit Health Care Environment

The tax-exempt status afforded nonprofit health care organizations is the subject of increasing regulatory and legislative threats. As a nonprofit tax-exempt organization, SHC 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, SHC 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. Hospitals or other health care providers may be forced to forgo otherwise favorable opportunities for certain joint ventures, recruitment and other arrangements in order to maintain their tax-exempt status.

The operations and practices of nonprofit, tax-exempt hospitals are routinely challenged or criticized for inconsistency or inadequate compliance with the regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. A common theme of these challenges is whether nonprofit hospitals may not confer community benefits that exceed or equal the benefit received from their tax-exempt status. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, local and state tax authorities, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a material adverse effect on SHC.

Congressional Hearings. A number of House and Senate Committees, including the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Committee on Finance, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt health care organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. These hearings and investigations may result in new legislation.

Nonprofit Legislation. Legislative proposals that could have an adverse effect on SHC include: (i) any changes in the taxation of nonprofit corporations or in the scope of their exemption from income or property taxes; (ii) limitations on the amount or availability of tax-exempt financing for corporations recognized as tax-exempt under Section 501(c)(3) of the Code; (iii) regulatory limitations affecting SHC's ability to undertake capital projects or develop new services; (iv) a requirement that nonprofit health care institutions pay real property tax and sales tax on the same basis as for-profit entities; (v) mandates to provide certain levels of free or substantially reduced care that must be provided to low income uninsured and underinsured populations; and (vi) placing ceilings on executive compensation.

Tax-Exempt Bond Examinations. IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. Schedule K of Form 990 requires tax-exempt organizations to report on the investment and use of tax-exempt

bond proceeds to address IRS concerns regarding compliance with arbitrage rebate requirements and the private use of bond-financed facilities. In addition, the IRS sent several hundred post-issuance compliance questionnaires to nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire included questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education. In July 2011, the IRS issued a final report analyzing the responses from the completed questionnaires. The report indicates that there are significant gaps in the implementation by nonprofit corporations of post-issuance and record retention procedures for tax-exempt bonds. The IRS has subsequently taken other initiatives to encourage issuers and borrowers to adopt post-issuance compliance procedures.

IRS Examination of Compensation Practices and Community Benefit. The IRS historically has been concerned about executive compensation practices of tax-exempt hospitals. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt organizations' 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 other tax-exempt organizations and, in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

The IRS has also undertaken 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. See "—Tax-Exempt Status and Other Tax Matters" below.

Form 990, Schedule H. As described below in "—Tax-Exempt Status and Other Tax Matters" the ACA contains requirements for tax-exempt hospitals through Section 501(r) of the Code. Schedule H of Form 990, which hospitals must use to report their community benefit activities, requires details on how a hospital determines eligibility for free or discounted care (if the federal poverty guidelines are not used). Consistent with Section 501(r) of the Code, Schedule H requires hospitals to describe billing and collection practices permitted under the hospital facility's policies, as well as information about the hospital's emergency medical care policy, financial assistance policy, and community health needs assessments. Hospitals must complete all of Schedule H, including lines that relate to community health needs assessments.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Some of these cases have since been dismissed by the courts and some hospitals and health systems have entered into substantial settlements. Cases are pending in various courts around the country and others could be filed. Some hospitals and health systems have entered into substantial settlements.

California Attorney General. California nonprofit public benefit corporations, including SHC, are subject to oversight and examination by the State Attorney General to ensure that their charitable purposes are being carried out, that their fundraising and investment activities comply with State law and that the terms of charitable gifts are followed.

Financial Assistance and Charity Care. The IRS has issued final regulations interpreting the requirements of Section 501(r) of the Code which focus on community benefit initiatives of hospitals. As discussed herein, Form 990 includes Schedule H, which hospitals and health systems must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. California law requires hospitals to maintain written policies about discount payment and charity care and provide copies of such policies to patients and OSHPD. California law also requires hospitals to follow specific billing and collection procedures and communicate proactively through the entire

cycle of care to patients on the options available to them within the policies. SHC has adopted and maintains such policies.

Charity Care. Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner-city hospitals and other health care providers may treat significant numbers of indigents. These hospitals and health care providers may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions may affect the number of employed individuals who have health coverage and the ability of those individuals to pay for their health 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 charity care as a condition to federal 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 in certain circumstances on the assertion 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, excessive financial margins, and operations that closely resemble for-profit businesses.

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 SHC. 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 SHC, and, in turn, its ability to make payments under the Indenture and Obligation No. 44.

Patient Service Revenues

Net patient service revenues realized by SHC are derived from a variety of sources. A substantial portion of the net patient service revenues of SHC is derived from third-party payors which pay for the services provided to covered patients. These third-party payors include the federal Medicare program, the Medi-Cal program and private health plans and insurers, including health maintenance organizations and preferred provider organizations. Many of those programs make payments to SHC in amounts that may not reflect SHC's direct and indirect costs of providing services to patients.

The financial performance of SHC has been and could be in the future adversely affected by the financial position, the insolvency of, the bankruptcy of or other delays in receipt of payments from third-party payors that provide coverage for services to its patients.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of this statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

The Medicare Program. Medicare is the federal health insurance system under which hospitals and other providers are paid for services provided to eligible elderly and disabled persons. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care, hospice and some home health care, and Medicare Part B covers physician services, outpatient hospital services, diagnostic tests, outpatient therapy and some supplies. 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 each state in which they operate and The Joint Commission or other officially sanctioned accrediting organization. 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, operations, personnel, billing, policies and services.

As the U.S. population ages, more people will become eligible for the Medicare program. In addition, there are numerous policy proposals, such as "Medicare for All" or "Medicare for More," that, if implemented, would have the effect of increasing the number of persons eligible for participation in the Medicare program and transition them away from commercial insurance plans that typically reimburse hospitals at rates higher than Medicare. Current projections indicate that demographic changes and continuation of current cost trends will exert significant and negative forces on the overall federal budget. The Medicare program reimburses hospitals based on a fixed schedule of rates based on categories of treatments or conditions. These rates change over time and there is no assurance that these rates will cover the actual costs of providing services to Medicare patients. Further, it is anticipated there will be reductions in rates paid to Medicare managed care plans that may ultimately be passed on to providers.

The ACA institutes multiple mechanisms for reducing costs to the Medicare program and thus reimbursement to hospitals, while also promoting new and innovative health care delivery models, including the following:

Market Basket Reductions. Generally, Medicare payment rates to hospitals are adjusted annually based on a "market basket" of estimated cost increases. In recent years, market basket adjustments for inpatient hospital care have averaged approximately 2-4% annually. CMS has implemented a positive market basket adjustment of 2.4% for fiscal year 2021.

Value-Based Purchasing. Beginning in federal fiscal year 2013, Medicare inpatient payments to hospitals have included value-based incentive payments made to hospitals that meet certain performance standards during a fiscal year. The program is funded through the reduction of all hospital inpatient care payments by 2%. This reduction is then returned to hospitals as incentive payments earned based on their ability to meet or exceed certain quality standards.

Market Productivity Adjustments. Since federal fiscal year 2012, the ACA has provided for "market basket" adjustments based on overall national economic productivity statistics calculated by the Bureau of Labor Statistics.

Hospital Acquired Conditions. Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain "hospital-acquired conditions" identified by CMS are reduced by 1% of what would otherwise be payable to each hospital for the applicable federal fiscal year.

Readmission Rate Penalty. Medicare inpatient payments to those hospitals with excess readmissions compared to the national average for specified conditions are reduced based on the dollar value of that hospital's percentage of excess preventable Medicare readmissions within 30 days of discharge, for certain medical conditions. The current maximum penalty is 3%. CMS expanded the patient conditions for which this penalty is assessed beginning in federal fiscal year 2017.

DSH Payments. Pursuant to the ACA, beginning in federal fiscal year 2014, hospitals receiving supplemental Medicare Disproportionate Share Hospital ("DSH") payments (*i.e.*, those hospitals that care for a disproportionate share of low-income Medicare beneficiaries) were to have their Medicare DSH payments reduced by 75%, although a portion of this reduction potentially could be offset in whole or in part by new payments to each hospital based on the volume of uninsured and uncompensated care. Separately, Medicaid DSH allotments from the federal government to the states are scheduled to be reduced $8 billion per year during federal fiscal years 2024 through 2027. These ACA-initiated Medicaid DSH allotment reductions have been delayed and modified multiple times. See "—Disproportionate Share Payments" below.

Medicare Advantage. Since October 1, 2010, payments under the Medicare Advantage programs had been generally reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to

Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs, depending on the contractual arrangement between the Medicare Advantage program and the provider. All or any of these outcomes could have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare Advantage program revenues. While CMS has increased Medicare Advantage payments by 1.66% in 2021, there can be no assurance that any such payment increases will continue into the future.

For information concerning the Medicare payments received by SHC for the fiscal years ended August 31, 2018, 2019 and 2020, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue."

Hospital Inpatient Reimbursement. A substantial portion of the Medicare revenues of SHC is anticipated to be derived from payments made for services rendered to Medicare beneficiaries under the Inpatient Prospective Payment System ("IPPS"). Under the IPPS, for each covered hospitalization, Medicare pays a predetermined base operating payment and a separate predetermined base payment for capital-related costs. Each hospitalization of a Medicare beneficiary is classified into one of several hundred diagnosis-related groups, or "DRGs." The IPPS payment rate is not correlated to the hospital's actual cost of treating a particular patient. It is a fixed sum, generally based on national DRG rates and a Hospital Wage Index intended to reflect geographic differences in the cost of labor. Several hospital characteristics are reflected in payment adjustments, including an indirect medical education adjustment, the disproportionate share adjustment to pay certain hospitals for a portion of the higher costs of treating a large proportion of poor patients and for indirect costs of operating in areas accessible to poor patients and outlier case adjustments (an additional payment for selected cases of unusually long stays or high costs). Therefore, the actual cost of care, including capital costs, may be more or less than the DRG rate. In addition, DRG rates are subject to adjustment by CMS, including reductions mandated by the ACA and the Budget Control Act, and are further 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" above.

In recent years, CMS has implemented a number of initiatives that may adversely affect Medicare payments to SHC, including reduced payment for certain cases in which a beneficiary acquires a complication or condition while in the hospital; an overall reduction in payment to fund bonus payments to some hospitals that satisfy CMS's "value-based purchasing" criteria; and reduced payments to hospitals with readmission rates for patients with specified diagnoses that exceed the anticipated readmission rate.

Hospital Outpatient Reimbursement. Hospitals are generally paid for outpatient services provided to Medicare beneficiaries under the Outpatient Prospective Payment System ("Outpatient PPS"), which is 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. Generally, the Outpatient PPS rates are adjusted annually based on estimated cost increases and other factors, including productivity and budget neutrality adjustments. These adjustments are typically positive, and often range from 0.5% to 2.5%. However, occasionally, because of statutory formulas and other legislative and administrative actions, these adjustments can be negative, and Medicare payments to hospitals can be reduced as a result. Moreover, Congress often takes action to specify payment update reductions, which can have the effect of constraining or reducing hospital payments. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Medicare Physician Payment. In April 2015, the Medicare and CHIP Reauthorization Act ("MACRA") established the Quality Payment Program ("QPP"), which repealed the sustainable growth rate methodology for updates to the Medicare Physician Fee Schedule, changed the way that Medicare rewards clinicians for services, streamlined existing quality and value programs, and provided for bonus payments to physicians and other clinicians for participating in certain payment models. Furthermore, MACRA moved Medicare physician reimbursement from a fee-for-service to a pay-for-performance model that will continue to control the growth of physician payments based on clinical outcomes and quality reporting. In addition to the base payment methodology, physicians can earn merit-based payments based on factors including compliance with meaningful use of certified electronic health records technology and demonstration of quality-based medicine.

Beginning January 1, 2019, and through 2025, physician payment adjustments will occur through the Quality Payment Program's two reimbursement tracks – the Merit-based Incentive Payment System ("MIPS") or an Alternative Payment Model ("APM"). In calculating physician payment adjustments, MIPS streamlines existing quality and value programs, accounting for physician performance under the meaningful use of electronic health records incentive program, the value-based modifier, and physician quality reporting system. Payments to physicians participating in APMs similarly accounts for performance under such programs. Beginning January 1, 2026, and effective January 1 of each subsequent calendar year, physician payments will be increased 0.75% for physicians who adequately participate in APMs, and 0.25% for those in MIPS.

MIPS, which is the "default track" under the QPP, provides eligible clinicians with an adjustment to their Medicare Part B reimbursement based on performance in four categories: Quality, Promoting Interoperability, Improvement Activities and Cost. MIPS combines into a single program aspects of CMS's prior quality and value programs, including the Physician Quality Reporting System, Medicare Electronic Health Records Incentive Program, and the Physician Value-Based Payment Modifier. 2017 was the first MIPS performance period and 2019 was the first year Part B payment adjustments have been applied for eligible clinicians.

"Advanced APMs" are APMs" that use certified electronic health record technology, provide for payment for covered professional services based on quality measures comparable to those in the quality performance category under MIPS, and either require that participating APM entities bear risk for financial losses of more than a nominal amount under the APM or be a type of Medical Home Model. Eligible clinicians who meet threshold Medicare participation levels in their Advanced APMs may be entitled to a 5% bonus on Medicare Part B payments and are excluded from MIPS.

The QPP and other federal delivery reform initiatives evidence a rapid volume-value shift within Medicare and could present challenges for SHC. The new quality reporting programs may negatively impact the reimbursement amounts received for the cost of providing physician services.

The outcomes of these programs, including the likelihood of being revised or expanded or their effect on health care organizations revenues or financial performance cannot be predicted, and it remains unclear what effect this legislation will have on SHC. For example, these programs may encourage more physicians to retire, not accept Medicare (or only accept Medicare Advantage). Alternatively, or in addition to other externalities of the implementation of these programs, increased focus and performance scoring on resource use may impact utilization of health care resources. Furthermore, implementation of a quality payment system will likely require regular reporting to CMS and greater internal resources to monitor performance and prevent payment reductions.

Off-Campus Provider-Based Departments. The Budget Control Act created "site neutral" reimbursement for services to Medicare beneficiaries at certain off-campus provider locations beginning January 1, 2017. Services subject to the change will not be reimbursed under Medicare's hospital outpatient prospective payment system ("OPPS"), but rather will be reimbursed under alternative payment systems (for example, at ambulatory surgery center rates). The exclusions apply to off-campus hospital departments that did not bill for services under the OPPS prior to November 2, 2015. Effective January 1, 2019, pursuant to the 2019 OPPS final rule, excepted (grandfathered) off-campus provider-based hospital departments were to be paid for clinic visit services at 70% of the OPPS rate, and in 2020, such services were to be paid at 40% of the OPPS rate.

On September 17, 2019, the D.C. District Court ruled that CMS exceeded its statutory authority to adjust payments for excepted off-campus provider-based hospital departments to 70% of the OPPS rate in the 2019 OPPS final rule. The D.C. District Court remanded the case back to CMS for determining appropriate remedies. In accordance with the instruction, on November 4, 2019, CMS implemented an update to rates for claims with a date of service of January 1, 2019 and thereafter. Beginning January 1, 2020, CMS will automatically reprocess claims originally paid at the reduced rate. However, CMS finalized a policy in the 2020 OPPS final rule that will implement the off-campus site-neutral clinic visit reimbursement rate to 40% of the OPPS rate beginning January 1, 2020. The American Hospital Association and several hospitals filed a lawsuit in the D.C. District Court to invalidate the final rule that would lower payments to off-campus provider-based clinics. On July 17, 2020, the U.S. Court of Appeals for the D.C. Circuit overturned the District Court's ruling, holding that the reimbursement reductions for clinic visits in excepted off-campus provider-based hospital departments were a reasonable interpretation of the Medicare statute.

The American Hospital Association has asked the U.S. Supreme Court to review this decision. Management of SHC is unable to predict the ultimate outcome of this legal challenge and the type of relief that may be ordered by the court.

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

Reimbursement of Hospital Capital Costs. Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare 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 SHC's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Medical Education Payments. SHC, as the operator of a teaching hospital, has historically received direct and indirect medical education reimbursement through the Medicare program. Medicare currently pays for a portion of both direct and indirect graduate medical education ("GME") costs. These forms of additional payments are also vulnerable to reduction, modification or elimination. The direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit.

Medicare Bad Debt Reimbursement. Under Medicare, the costs attributable to the deductible and coinsurance amounts which remain unpaid by the Medicare beneficiary can be added to the Medicare share of allowable costs as cost reports are filed. Hospitals generally receive interim pass-through payments during the cost report year which were determined by the Medicare Administrative Contractor ("MAC") from the prior cost report filing. Bad debts must meet the following criteria to be allowable:

- the debt must be related to covered services and derived from deductible and coinsurance amounts;
- the provider must be able to establish that reasonable collection efforts were made;
- the debt was actually uncollectible when claimed as worthless; and
- sound business judgment established that there was no likelihood of recovery at any time in the future.

The amounts uncollectible from specific beneficiaries are to be charged off as bad debts in the accounting period in which the accounts are deemed to be uncollectible. In some cases, an amount previously written off as a bad debt and allocated to the program may be recovered in a subsequent accounting period. In these cases, the recoveries must be used to reduce the cost of beneficiary services for the period in which the collection is made. In determining reasonable costs for hospitals, the amount of bad debts otherwise treated as allowable costs is reduced by 35% of the total amount. Amounts incurred by a hospital as reimbursement for bad debts are subject to audit and recoupment by the MAC. Bad debt reimbursement has been a focus of MAC audit/recoupment efforts in the past.

Recovery Audit Contractor Program. CMS has implemented a Recovery Audit Contractor program on a nationwide basis pursuant to which CMS contracts with private contractors to conduct pre- and post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. The ACA expands the program's scope to include managed Medicare plans and Medicaid claims. CMS also contracts with Medicaid Integrity Contractors ("MICs") to perform post-payment audits of Medicaid claims and identify improper payments. These programs tend to result in retroactively reduced payment and higher administration costs to hospitals.

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 low-income individuals and their dependents. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. The ACA provides significantly enhanced federal funding for states to expand their Medicaid program to virtually all non-elderly, non-disabled adults with incomes up to 138% of the federal poverty level. Attempts to balance or reduce the federal budget along with balanced-budget requirements in the State

will likely negatively impact spending for Medicaid funding. Federal and state budget proposals contemplate significant cuts to Medicaid spending which will likely negatively impact provider reimbursement. Changes in the Medi-Cal program could materially and adversely affect the financial condition of SHC.

Medi-Cal reimburses inpatient services provided at general acute care hospitals using diagnostic-related groups ("DRGs"). The DRG payment method is based on All-Patient Refined Diagnosis Related Groups ("APR-DRGs"), which is a proprietary classification system for clinical conditions that is currently licensed and in use by many state Medicaid programs. Under this payment method, the California Department of Health Care Services ("DHCS") will reimburse hospitals a fixed amount for each inpatient admission based on the APR-DRG for that admission, which DHCS will assign based on the diagnoses, procedures, patient age and discharge status submitted on the hospital claim. Because the payment method is new and as DHCS and hospitals gain experience with the new method, DHCS intends to make adjustment in certain circumstances.

A significant amount of legislation regarding Medi-Cal has been proposed. Changes in the Medi-Cal program could materially and adversely affect the financial condition of SHC.

The ACA makes changes to Medicaid funding and substantially increases the potential number of Medicaid beneficiaries. To fund this expansion, the ACA provides that the federal government will fund 100% of the costs of this expansion beginning in fiscal year 2014, decreasing to 90% of the costs of this expansion in fiscal year 2020 and thereafter. In June 2012, the U.S. Supreme Court held that the federal government cannot withhold existing federal funds for states that refuse to expand Medicaid as required by the ACA. CMS has granted, and is expected to grant additional, section 1115 demonstration waivers providing for work and community engagement requirements for certain Medicaid eligible individuals. CMS has also released guidance to states interested in receiving their Medicaid funding through a block grant mechanism. It is anticipated this will lead to reductions in coverage, and likely increases in uncompensated care, in states where these demonstration waivers are granted.

While management of SHC cannot predict the effect of these changes to the Medi-Cal program on operations, results from operations or financial condition of SHC, historically Medi-Cal has reimbursed at rates below the cost of care. Therefore, increases in the overall proportion of Medi-Cal patients pose a financial risk to SHC. The State expanded Medi-Cal under the ACA, and it is uncertain to what extent the risk of lower reimbursement rates under Medi-Cal may be mitigated if the increased Medi-Cal utilization replaces previously uncompensated patients. Furthermore, there can be no assurance that legislation will not be adopted that would materially alter federal financing to the states in support of the Medicaid program, and there can be no assurance that any such legislation will not materially adversely affect SHC. See also "—Health Care Reform" above.

On November 18, 2019, CMS published a Medicaid Fiscal Accountability Rule proposed rule that could impose significant changes on Medicaid supplemental payments and financing arrangements and limit the availability of certain supplemental payments. The proposed rule addresses policies relating to Medicaid financing, certified public expenditures, intergovernmental transfers, and health care related taxes. CMS cited to the rapid increase in the use of supplemental payments and stated that their intention is to strengthen the fiscal integrity of the Medicaid program and improve transparency in supplemental payment arrangements. The rule also proposes potentially burdensome detailed annual and quarterly reporting requirements relating to supplemental payments. CMS formally withdrew the proposed rule in January 2021, but CMS could attempt to finalize it, or a similar rule, in the future. Oversight of Medicaid supplemental payments is expected to increase in future years. In the CAA Congress required DHHS to establish a system for each state to submit reports on supplemental payments data, including the amount of supplemental payments made to each eligible provider. Management of SHC cannot predict the likelihood of CMS promulgating an MFAR rule, the content of any such rule, the impact on coverage, benefits, and reimbursement rates under California's Medicaid program, or the impact on hospital reimbursement. .

For information concerning the Medi-Cal payments received by SHC, for the fiscal years ended August 31, 2018, 2019 and 2020, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—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. Medicare and Medicaid participating hospitals are subject to audits and retroactive audit adjustments with

respect to reimbursement 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 care programs.

Audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare and/or Medicaid payments to health care providers pending resolution of the appeals process. The ACA explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a health care provider or supplier during a pending investigation of fraud. The ACA also amended certain provisions of the FCA (as defined herein) to include retention of overpayments as a violation. It also added provisions respecting the timing of the obligation to identify, report and reimburse overpayments.

Disproportionate Share Payments. The federal Medicare and the State Medi-Cal programs each provide additional payment for hospitals that serve a disproportionate share of certain low-income patients. SHC does not qualify as a disproportionate share hospital under the Medi-Cal program. The ACA substantially reduces Medicare and Medicaid payments to disproportionate share hospitals. There can be no assurance that payments to disproportionate share hospitals will not be further decreased or eliminated in the future.

California Hospital Provider Fee. In 2009, the California Legislature first enacted the Medi-Cal Hospital Provider Rate Stabilization Act and the Quality Assurance Fee Act, which imposed a "quality assurance fee" on California's general acute care hospitals, except for public hospitals and certain exempt hospitals. The Medi-Cal quality assurance fee is an assessment that raises funds from hospitals for the State of California general fund; it is essentially a tax on hospitals to raise funds for provider payments. The proceeds are used to earn federal matching funds for Medi-Cal and to increase Medi-Cal payments to hospitals. Under this program, some California hospitals receive more funding in increased Medi-Cal payments than the quality assurance fees paid, while other California hospitals receive less money in Medi-Cal payments than the fees paid. The QAF program operated the same as the prior program. The California Medi-Cal Hospital Reimbursement Initiative, or Proposition 52, which passed in November 2016, extended the hospital fee program indefinitely and put protections in place to prevent diversion of funds from the program. For information concerning the impact of this program on SHC, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION—Management's Discussion and Analysis of Recent Financial Performance."

California State Budget. In recent years, the State budget has been balanced, with the expectation that it would remain so for the foreseeable future. State cash reserves have been increasing to historically high levels.

The State fiscal year 2020-21 budget, which took effect July 1, 2020, is expected to remain balanced for the foreseeable future. The 2020-21 budget provides $23.6 billion from the General Fund for Medi-Cal, which is approximately level with 2019-20 spending levels. Caseload in the program is projected to grow by 9% between 2019-20 and 2020-21 due to the impact of COVID-19. Notably, the 2020-21 budget also offers financial assistance for affordable access to health care to qualified individuals with incomes between 400% and 600% of the federal poverty level, while also increasing subsidies for individuals with incomes below 400% of the federal poverty level.

In addition to the uncertain impact of the COVID-19 pandemic, which could have negative effects on State revenues or require the State to use cash reserves and other funds, it is impossible to predict the impact of future financial challenges to the California economy, including threat of future recessions, changes in federal spending policy and other events that could result in budget deficits. It is also impossible to predict actions that the Governor, the State legislature or voters—via ballot initiative—may take in the future. It is reasonable to expect, however, that cost containment measures, including aggressive management of the State's health care spending, will be pursued to keep the State's budget in balance, which may have an adverse effect on the financial condition of SHC.

For example, the significant expansion to Medi-Cal will require additional program funding. Federal funding is available for some of this expansion, but it is conditioned on states maintaining specified beneficiary eligibility criteria and California has sought to limit program eligibility in recent years to reduce program costs. In May 2016, individuals under 19 years of age became eligible for full scope Medi-Cal benefits regardless of immigration status.

This population was previously only eligible for restricted scope Medi-Cal, which only covers emergency medical conditions. This expansion will require additional program funding, and will be funded with State funds if federal participation is not available. While federal funding is available to facilitate Medicaid program expansion, this funding is expected to be temporary. The Medicaid program expansion and the expected longer-term loss of federal financial support to offset longer-term expansion-related costs may require the State to reduce provider reimbursement rates further.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and self-funded employer and multi-employer plans that generally use discounts and other economic incentives to reduce or limit the utilization of or payment for health care services. Medicare and Medicaid also purchase health care using managed care options. Payments to health care organizations from these payors typically are made at discounted fee-for-service rates or other reimbursement methodologies that result in patient service revenue that is lower than those received from traditional indemnity or commercial insurers.

In California, managed care plans have replaced indemnity insurance as the primary source of non-governmental payment for health care services, and health care organizations 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 health care organizations be able to provide the contracted services without significant operating losses, which may require multiple forms of cost containment.

Many private health benefit plans currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, or a fixed rate per hospital stay, which, in each case, usually is discounted from the usual and customary charges for the care provided. As a result, the discounts offered to private health benefit plans 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 health care organizations are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care from a particular health care organization. The health care organization may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the health care organization's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the health care organization could erode rapidly and significantly. In addition to this standard managed care risk sharing approach, private health insurance companies are increasingly adopting various additional risk sharing/cost containing measures, sometimes similar to those introduced by government payors. Commercial insurers are also adopting total cost of care and pay for performance strategies with providers. Providers may expect health care cost containment and its associated risk sharing to continue to increase in the coming years amongst all payors.

Often, managed care contracts are enforceable for a stated term, regardless of health care organization losses, and may require health care organizations to care for enrollees for a certain time period, regardless of whether the payor is able to pay the health care organization. Health care organizations from time to time have disputes with HMOs, PPOs and other managed care payors concerning payment and contract interpretation issues. Such disputes may result in mediation, arbitration or litigation.

There is no assurance that SHC will maintain particular insurance contracts, existing rates or obtain contracts from other third party payors in the future. Failure to maintain contracts could have the effect of reducing a health care organization's net patient services revenues. Conversely, participation may result in lower net income if participating health care organizations 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.

In addition to tiered provider networks, managed care plans are also implementing narrow provider networks in which only a select group of providers participate as in-network providers. Managed care plans often look at quality performance and cost in selecting providers to participate in their narrow networks. A provider's exclusion from a narrow network may result in a material loss of volume. Managed care plans may offer lower reimbursement for providers in their narrow network(s) in exchange for the prospect of gaining additional volume from being one of a select group of network providers. The reimbursement may be insufficient to cover a network provider's cost in providing the services. The new demands of dominant health plans and other shifts in the managed care industry may also reduce patient volume and revenue. Thus, managed care poses one of the most significant business risks (and opportunities) that health care organizations face.

In addition, the current trend of consolidation in the health insurance industry is likely to increase the leverage of commercial insurers when negotiating rates with health care providers. Large health insurers that assume dominant positions in local markets threaten to increase health insurer concentration, reduce competition and decrease choice. If SHC were to terminate its agreement with any of the major managed care payers or not agree to terms proposed by such payers, it could have a significant material adverse impact on the financial condition of SHC.

Substantial numbers of individuals are choosing health insurance under the health insurance exchanges, increasing the number of individuals covered in the individual market. In 2020, 11.4 million individuals enrolled in exchange coverage nationwide. Individuals choosing their own coverage may become highly price sensitive, which could increase the number of enrollees in HMO plans and increase the use of capitation, making price negotiations with HMO and other insurance plans more difficult.

For information concerning the managed care payments received by SHC for the fiscal years ended August 31, 2018, 2019 and 2020, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue."

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medicaid, 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. The ACA shifts payments from paying for volume to paying for value, based on various health outcome measures. 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 SHC. 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 set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

Enforcement Affecting Clinical 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 for Human Research Protections, one of the agencies responsible for monitoring federally funded research. In addition, the National Institutes of Health ("NIH") 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 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 NIH and other agencies of the U.S. Public Health Service. Although SHC is not the direct recipient of such awards (instead, Stanford University School of Medicine is the recipient of research awards), SHC receives payments for health care items and services under many of these grants as a subcontractor. As such, SHC 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.

The enforcement powers of agencies with oversight of clinical research range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs. Billing of the Medicare program for experimental care provided to patients that is not eligible for Medicare reimbursement can subject SHC 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 submitting 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, marketing activities, physician contracting and recruiting, and other functions and transactions.

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, requiring execution of corrective action plans, and suspension of Medicare/Medicaid payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available sanctions may be, and often are, imposed for each violation. The ACA also authorizes the Secretary of DHHS to suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider.

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.

Violations and alleged violations may be deliberate, but also can 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. The federal and State government periodically conduct widespread investigations covering categories of services or certain accounting or billing practices. Even if there has been no wrongdoing, investigations can be resources-intensive and time consuming for providers such as SHC.

False Claims Act. The federal False Claims Act ("FCA") makes it illegal to knowingly 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. Because the term "knowingly" is defined broadly under the law to include not only actual knowledge but also deliberate ignorance or reckless disregard of the facts, the FCA can be used to punish a wide range of conduct. The ACA amended the FCA by expanding the number of activities that are subject to civil monetary penalties to include, among other things, failure to report and return identified overpayments within statutory limits. FCA investigations and cases have become common in the health care field and may cover a range of activity from submission of intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Penalties under the FCA are severe and may include damages equal to three times the amount of the alleged false claims, as well as substantial civil monetary penalties. As a result, violation or alleged violation of the FCA frequently results in settlements that require multi-million dollar payments and compliance agreements. In 2016, the Department of Justice ("DOJ") issued a rule that more than doubled civil monetary penalties under the FCA. The penalty amounts are adjusted each year to reflect changes in the inflation rate. The increased penalty range significantly increases the potential financial exposure resulting from an FCA violation. As a result, violation or alleged violations of the FCA frequently result in settlements involving 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 federal government

or recover independently if the government does not participate. The FCA has become one of the federal government's primary weapons against health care fraud and suspected fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital and other health care providers.

Some regulators and whistleblowers have asserted that claims submitted to governmental payers that do not comply fully with regulations or guidelines come within the scope of the FCA. In 2016, the U.S. Supreme Court in *Universal Health Services, Inc. v. United States ex rel. Escobar* held that the theory of "implied false certification" can be used as a basis for FCA liability when (1) a claim does more than merely request payment and makes specific representations about the nature of the goods or services provided and (2) the failure to disclose noncompliance with material statutory, regulatory or contractual provisions makes the representations "misleading half-truths." The application of this new standard is evolving and could lead to an increase in FCA claims in the health care industry based on this theory of liability.

Under the ACA, the scope of the FCA has been expanded to include overpayments that are discovered by a health care provider but are not promptly refunded to the applicable federal health care program, even if the claims relating to the overpayment were initially submitted without any knowledge that they were false. The ACA requires that providers return identified overpayments within the later of 60 days of identification or the date any corresponding cost report is due or the overpayment becomes an "obligation" under the FCA. There was initially great uncertainty in the industry as to when an overpayment is technically "identified" and the ability of a provider to determine the total amount of an overpayment and satisfy its repayment obligation within the required time period. A 2016 CMS final rule clarified that an overpayment is considered to have been identified when either reasonable diligence is completed (including determination of the overpayment amount) or on the day the person received credible information of a potential overpayment (if the person failed to conduct reasonable diligence and the person in fact received an overpayment). That same final rule also established a six-year lookback period, meaning overpayments must be reported and returned only if a person identifies the overpayment within six years of the date the overpayment was received. This expansion of the FCA exposes hospitals and other health care providers to liability under the FCA for a considerably broader range of claims than in the past.

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 potentially applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions. The ACA amended the Anti-Kickback Law to provide explicitly that a claim that includes items or services resulting from a violation of the Anti-Kickback Law constitutes a false or fraudulent claim for purposes of the FCA. Another amendment provides that an Anti-Kickback Law violation may be established without showing that an individual knew of the statute's proscriptions or acted with specific intent to violate the Anti-Kickback Law, but only that the conduct was generally wrongful.

Violations may result in civil and criminal penalties. Criminal penalties include imprisonment and fines. Civil penalties include temporary or permanent exclusion from government health care programs and civil money penalties. The broad prohibitions of the Anti-Kickback Law may be implicated when hospitals and physicians conduct joint business activities, such as physician recruiting programs, physician referral services, hospital-physician service or management contracts, space or equipment rentals between hospitals and physicians, and other service and vendor relationships. Violations or alleged violations of the Anti-Kickback Law may result in settlements that require multi-million dollar payments and onerous corporate integrity agreements. Additionally, the IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See "—Tax-Exempt Status and Other Tax Matters" below. In addition to the federal Anti-Kickback Law, many states, including the State, have anti-kickback and/or fee-splitting statutes designed to prohibit inducements or improper remuneration for the referral of patients. See "—'Fraud' and 'False Claims'" herein.

Stark Referral Law. The federal "Stark" statute ("Stark" or the "Stark Law") prohibits the referral of Medicare 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, or

immediate family member, has a financial relationship unless that relationship fits within a Stark exception. 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 substantive and technical requirements of an applicable exception are not satisfied, many ordinary business practices and economically desirable arrangements between hospitals and physicians, which constitute "financial relationships" would fall within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of designated health services with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services performed based on a prohibited referral and a hospital that has billed for prohibited services may be obligated to notify and 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 excluded from the Medicare and Medicaid programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark Law violation or alleged violation could have a material adverse impact on a hospital and other health care providers. Increasingly, the federal government is prosecuting violations of the Stark Law under the FCA, based on the argument that claims resulting from an illegal referral arrangement are also false claims for FCA purposes. The federal government has attempted to recover the federal portion of Medicaid claims for services provided to patients referred to hospitals by physicians with whom they have prohibited financial relationships.

CMS has established a voluntary self-disclosure program under which hospitals and other entities may report Stark Law violations and seek a reduction in potential refund obligations. The limited publicly available information with respect to the self-disclosure program suggests that most voluntary self-disclosure submissions remain under consideration by CMS for an extended period of time, and that it is difficult to predict how CMS will react to any specific voluntary self-disclosure. SHC may make self-disclosures under this program as appropriate from time to time. Any submission pursuant to the self-disclosure program does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of the Stark Law or impose civil monetary penalties.

Although the Stark Law only applies to Medicare, a number of courts have recently interpreted the Stark Law as also applying to Medicaid.

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. See discussion under the subheadings "—False Claims Act," "—Anti-Kickback Law" and "—Stark Referral Law" above. California also has an FCA-type law that applies to fraudulent claims presented to an insurance company, which thus goes beyond the scope of the FCA and California's directly analogous statute, which are limited to fraudulent claims for which the federal or state government is required to pay or reimburse a portion or all of the claim. Under the California law, codified in Section 1871.7 of the California Insurance Code, a person who submits a fraudulent claim to an insurance company is subject to civil fines ranging from $5,000 to $10,000 per fraudulent claim, plus an additional assessment of up to three times the amount of each claim, and may be subject to criminal penalties under the California Penal Code as well. Similar to the FCA, actions under this Insurance Code section may be initiated by private parties.

Civil Monetary Penalties Law. The federal Civil Monetary Penalties Law ("CMPL") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. For example, penalties may be imposed for the knowing presentation of claims that are (i) incorrectly coded for payment; (ii) for services that are known to be medically unnecessary; (iii) for services furnished by an excluded party; or (iv) otherwise false. A hospital or health care provider that participates in arrangements known as "gainsharing" by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also could be subject to CMPL penalties. Further, a hospital or health care provider that provides benefits to Medicare or Medicaid beneficiaries that such provider knows or should know are likely to induce the beneficiaries to choose the provider for their care could also

be subject to CMPL penalties. Civil monetary penalties may also be assessed for (i) knowingly making or using a false record or statement material to a false or fraudulent claim for payment; (ii) failing to grant timely access for audits; and (iii) failing to report and return a known overpayment within statutory time limits. The ACA also amended the CMPL to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

Health care providers may be found liable under the CMPL even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

OIG has established a voluntary self-disclosure program under which hospitals and other entities may report CMPL violations and seek a reduction in potential damages. It is difficult to predict how OIG will react to any specific voluntary self-disclosure but OIG has streamlined its internal process to reduce the average time a case is pending with OIG to less than 12 months from acceptance into the voluntary self-disclosure program. SHC may make self-disclosures under this program as appropriate from time to time. Any submission pursuant to the self-disclosure program does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of health care fraud and abuse laws or impose civil monetary penalties.

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. Consolidation transactions among health care providers are an area in which investigation and enforcement activity by federal and state antitrust agencies is particularly frequent and vigorous. The application of the federal and state antitrust laws to health care is evolving (especially as the ACA is implemented), and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting, formation of integrated delivery systems, and medical staff credentialing disputes, and hospital mergers and acquisitions.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. Investigations and proceedings arising from the application of federal and state antitrust laws can require the dedication of substantial resources by affected providers and can delay or impede proposed transactions even if ultimately it is determined that no violation of applicable law would occur as a result of the proposed transaction.

HIPAA, HITECH, and Other Privacy and Security Requirements. The Health Insurance Portability and Accountability Act ("HIPAA"), along with other federal and various state statutes, addresses the confidentiality of individuals' health information. HIPAA's detailed privacy standards extend not only to patient medical records, but also to a variety of demographic, clinical and financial information held by "covered entities," *i.e.*, hospitals and other entities governed by HIPAA. HIPAA's privacy standards prohibit the use and disclosure of, and access to, "Protected Health Information" ("PHI"), a broadly defined term, unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. The HIPAA privacy standards also give individuals the rights to know how their PHI is being used or disclosed, to access and amend their PHI, and obtain information about certain disclosures of their PHI. They also obligate covered entities to provide Notices of Privacy Practices to individuals, which detail how the entities use and disclose PHI and how individuals can exercise their rights in respect of their PHI. These requirements often impose communication, operational, and accounting obligations that add costs and create potentially unanticipated sources of liability.

HIPAA contains security standards that require covered entities to implement certain administrative, physical, and technical security standards to protect the integrity, confidentiality and availability of electronic PHI. HIPAA also implemented transaction standards that dictate the use of standard transaction formats, code sets and standard identifiers in connection with certain electronic health care transactions between health plans and health care providers, including activities associated with the billing and collection of health care claims.

HIPAA imposes civil monetary and criminal penalties for violations of its privacy and security standards, and these civil penalties have now been increased through provisions in the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act") and adjusted for inflation.

The HITECH Act also (i) granted enforcement authority of HIPAA to state attorneys general, (ii) extended the reach of HIPAA beyond "covered entities," (iii) imposed a breach notification requirement on HIPAA covered entities, (iv) limited certain uses and disclosures of PHI, and (v) restricted covered entities' permissible marketing communications.

The breach notification obligation, in particular, may expose covered entities such as hospitals to heightened liability. Under HITECH, in the event of a privacy breach, covered entities are required to notify affected individuals and the federal government. If more than 500 individuals are affected by the breach, (i) the covered entity must also notify the media and (ii) the federal government posts a description of the breach on its website and investigates the incident through the DHHS Office for Civil Rights ("OCR"), the administrative office that is tasked with enforcing HIPAA. The OCR may also investigate breaches involving fewer than 500 affected individuals.

Recent settlements of HIPAA breaches have reached the millions of dollars. Any breach of HIPAA, regardless of intent or scope, may result in penalties or settlement amounts that are material to a covered health care provider or health plan. In addition to the costs associated with any such penalties and settlements, covered entities may incur significant costs associated with investigating and handling potential privacy and security breaches.

Enforcement activity is expected to increase in future years in other respects as well. Criminal penalties may be enforced against persons who obtain or disclose personal health information without authorization. DHHS may also perform periodic audits of health care providers and group health plans to ensure that required policies under the HITECH Act are in place.

In 2013, DHHS comprehensively modified existing HIPAA regulations to implement the requirements of the HITECH Act. These modifications, known as the "HIPAA Omnibus Rule," generally became effective in September 2013. Important aspects of the HIPAA Omnibus Rule, some of which are discussed above in the paragraphs discussing the HITECH Act, include, but are not limited to: (i) a new standard for what constitutes a breach of PHI, (ii) four levels of culpability with respect to civil monetary penalties assessed for HIPAA violations, (iii) direct liability of business associates for certain violations of HIPAA, (iv) modifications to the rules governing research, (v) stricter requirements regarding non-exempt marketing practices, (vi) modification and re-distribution of notices of privacy practices, (vii) expanded rights of individuals to receive electronic copies of their PHI, and (viii) stricter requirements regarding the protection of genetic information. Management believes SHC is in material compliance with the HIPAA Omnibus Rule, HIPAA regulations generally, and similar state laws, but due to the complexity of the rules and the nature of technological change and information security issues, no assurance can be given that a violation will not be found in a federal or state audit or enforcement proceeding. Any sanctions imposed as a result of a HIPAA or state privacy law violation could have a material effect on the financial condition of SHC.

Under HIPAA, covered entities must include certain required provisions in their contractual relationships with their business associates. Business associates are organizations that perform functions on behalf of covered entities, and that receive PHI from the covered entities in order to carry out those functions. Business associates are indirectly regulated by HIPAA through those contractual obligations. The HITECH Act and the final rules promulgated thereunder provide that all of the HIPAA security administrative, physical, and technical safeguards, as well as security policy, procedure and documentation requirements, now apply directly to all business associates. In addition, the HITECH Act makes certain privacy provisions directly applicable to business associates. These changes are significant because business associates are directly regulated by DHHS for those requirements, and as a result, will be subject to penalties imposed by DHHS and/or state attorneys general. Likewise, a covered entity may in certain circumstances be held liable for a breach by its business associate. Covered entities have had to review and amend their business associate agreements in recent years in order to comply with these changing rules, which can be costly and administratively burdensome.

In addition to HIPAA and HITECH, a number of other laws address the confidentiality of individual health information. These other laws may impose more stringent privacy requirements than HIPAA does. For instance, federal laws place additional confidentiality requirements on records pertaining to alcohol and substance abuse

treatment at certain facilities. California and other states have adopted laws that afford greater protection to certain types of particularly sensitive health information, such as behavioral health records. California and many other states have also adopted broad data breach notification laws that extend to compromised medical and health insurance information. Together, all of these laws and regulations add compliance costs and create potentially unanticipated sources of legal liability for SHC.

Electronic Health Record Requirements. The HITECH Act also established programs under Medicare and Medicaid to provide for incentives and penalties related to the use of certified electronic health records. Hospitals and physicians that do not satisfy the performance and reporting criteria for demonstrating the use of such technology will have their Medicare payments significantly reduced.

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, including California, 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.

California medical privacy laws penalize the unlawful use or disclosure of, patients' medical information, as well as unauthorized access to such information, which the laws define as the inappropriate access, review, or viewing of patient medical information without the direct need to do so for purposes of diagnosis, treatment or other lawful use. Administrative penalties under these medical privacy laws may reach $250,000 per violation or for each reported event.

Existing or future state consumer protection and privacy laws including the California Consumer Privacy Act ("CCPA") 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 incidents exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement and negative media attention. 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 hospital's reputation and materially adversely affect business operations. CCPA does not presently apply to PHI collected by a covered entity subject to HIPAA, but there can be no assurances that such PHI will not be regulated by CCPA in the future.

In any hospital, there can be security incidents related to patient information, which stem from a variety of causes ranging from external or internal deliberate invasions by individuals or employees, to inadvertent loss or misdirection of paper or electronic records, to theft of hardware or software.

Exclusions from Medicare or Medicaid Participation. The government may exclude a health care provider 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 health care provider would be decertified from program participation and no program payments can be made. Any health care provider exclusion could be a materially adverse event, even within a large hospital system. In addition, exclusion of health care organization's employees or independent contractors or their employees under Medicare or Medicaid may be another source of potential liability for hospitals or health systems based on services provided by those excluded employees.

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 administrative enforcement actions.

Compliance with Conditions of Participation. CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions, such as suspension or requiring execution of potentially burdensome corrective action plans, 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 and exclusion from the Medicare and Medicaid programs. Over the last few years, the federal government has increased its enforcement of EMTALA. 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. In certain cases, a hospital will be deemed to have met the Medicare Conditions of Participation (and eligible for Medicare payment) if it is accredited by The Joint Commission or another acceptable accrediting organization. However, at any time, CMS may still require a survey of a hospital by a state agency to determine whether the hospital actually meets the Conditions of Participation. 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 or to bill various third party payors. Certain states, including California, can levy penalties against hospitals that experience certain significant patient care events, including those that are classified as posing "immediate jeopardy" to patient health and safety. In California, the administrative penalty for such incidents is up to $75,000 for the first incident, up to $100,000 for the second, and up to $125,000 for the third and every subsequent violation within three (3) years.

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 health facilities; 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 or to recover higher damages, assessments or penalties 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.

Review of Outlier Payments. CMS is reviewing health care providers that are receiving large proportions of their Medicare revenues from outlier payments. Health care providers found to have obtained inappropriately high outlier payments will be subject to further investigation by the CMS Program Integrity Unit and potentially the OIG. Management of SHC does not believe that any potential review would materially adversely affect its results of operations.

Business Relationships and Other Business Matters

Integrated Delivery Systems. Hospitals 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 subsidies or other support from the related hospital or health system. 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.

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

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" above, 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. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital or health system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization. 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 and health systems 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 and health systems.

Health care providers, responding to health care reform and other industry pressures, are increasingly moving toward integrated delivery systems, managing the health of populations of individuals, patient-centered medical homes, bundled payments, and capitated insurance plans. These trends will require new infrastructures, including the appropriate mix of physician specialties, new administrative skills, close relationships between physicians and hospitals, insurance risk management, and new relationships between patients and providers. Provider organizations may be unsuccessful in assembling successful integrated networks, may not achieve savings sufficient to offset the substantial costs of creating and maintaining the necessary infrastructures to support such developments, or otherwise could incur losses from assuming increased risk and could incur damage to reputations. Some health care organizations that traditionally operated hospitals may, directly or in partnership, take on actual insurance risk, market various health coverage products and access patients by way of unknown channels. Such new endeavors could adversely affect the financial and operating condition or reputation of an organization.

Physician Financial Relationships. In addition to the physician integration relationships referred to above, hospitals and health systems frequently have various additional business and financial relationships with physicians and physician groups. These are in addition to hospital physician contracts for individual services performed by physicians in hospitals. They potentially include: joint ventures to provide outpatient services; recruiting arrangements with individual physicians and/or physician groups; loans to physicians; medical office leases; equipment leases from or to physicians; and various forms of physician practice support or assistance. These and other financial relationships with physicians (including hospital physician contracts for individual services) may involve financial and legal compliance risks for the hospitals and health systems involved. From a compliance standpoint, these types of financial relationships may raise federal and state "anti-kickback" and federal and state "Stark" issues (see "—Regulatory Environment," above), tax exemption issues (see "—Tax-Exempt Status and Other Tax Matters," below), as well as other legal and regulatory risks, and these could have a material adverse impact on hospitals.

Accountable Care Organizations. The ACA established the Medicare Shared Savings Program ("MSSP"), which seeks to promote accountability and coordination of care through the creation of ACOs. The program allows hospitals, physicians and others to form ACOs and work together to invest in infrastructure and redesign integrated delivery processes to achieve high quality and efficient delivery of services. ACOs that achieve quality performance standards will be eligible to share in a portion of the amounts saved by the Medicare program. DHHS has significant discretion to determine key elements of the program, including what steps providers must take to be considered an ACO, how to decide if Medicare program savings have occurred, and what portion of such savings will be paid to ACOs.

To qualify as an ACO, organizations must agree to be accountable for the overall care of their Medicare beneficiaries, have adequate participation of primary care physicians, define processes to promote evidence-based medicine, report on quality and costs, and coordinate care. The ACO and MSSP final rules were published in 2011 and 2015, respectively; however, the regulations are complex and it remains unclear whether the qualification requirements will be a formidable barrier for providers.

In 2011, CMS, the Federal Trade Commission and DOJ jointly issued guidance regarding safe harbors for collaborative provider MSSP participation. In 2020, the OIG issued a final rule that established an Anti-Kickback Law safe harbor for value based models like the MSSP. At the time, CMS also issued a final rule that created a new Stark exception for these models. Although the final regulations provide exemptions and safe harbors from certain federal laws, there may remain regulatory risks for participating hospitals, as well as financial and operational risks. There can be no assurance that such waivers or other regulations or guidance will sufficiently clarify the scope of permissible activity in all cases. Although the regulation provides for waivers of certain federal laws, there may remain regulatory risks for participating hospitals, as well as financial and operational risks. The applicable regulating bodies have published guidance for ACOs to follow in order to comply with the law, but the published guidance is complex.

In particular, because the federal ACO regulations do not preempt state law, California providers participating as a federal ACO must be organized and operated in compliance with California's existing statutes and regulations. Numerous organizations have formed ACOs and been selected by CMS to participate in the MSSP. CMS is also developing and implementing more advanced ACO payment models, such as the Next Generation ACO Model, which require ACOs to assume greater risk for attributed beneficiaries. In December 2018, CMS published a final rule that, in general, requires ACO participants to take on additional risk associated with participation in MSSP. It remains unclear to what extent providers will pursue federal ACO status or whether the required investment would be warranted by increased payment. Nevertheless, it is anticipated that private insurers may seek to establish similar incentives for providers, while requiring less infrastructural and organizational change. Providers participating in MSSP and other ACO payment models developed by CMS may not be able to recoup their investments and may suffer further losses if they are not able to meet quality targets and sufficiently control the cost of care for their attributed beneficiaries. In addition, it is anticipated that private insurers may seek to establish similar incentives for providers, while requiring change in infrastructure and organization. The potential impacts of these initiatives and the regulation for ACOs are unknown and continually evolving, but introduce greater risk and complexity to health care finance and operations.

Hospital 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 and other health care facilities. CMS annually reviews overall physician reimbursement formulas for Medicare and Medicaid. Changes to physician compensation under these programs could lead to physicians ceasing to accept Medicare and/or Medicaid patients. Regional differences in reimbursement by commercial and governmental payors, along with variations in the costs of living, may cause physicians to avoid locating their practices in communities with low reimbursement or high living costs. Hospitals and health systems may be required to invest additional resources in recruiting and retaining physicians, or may be compelled to affiliate with, and provide support to, physicians in order to continue serving the growing population base and maintain market share. The physician-to-population ratio in certain parts of the State is below the national average, and the shortage of physicians could become a significant issue for hospitals and health care systems in the State. Difficulties in recruiting or retaining physicians may reduce the volume or range of clinical services that a hospital is capable of providing and may, consequently, decrease patient service revenues.

Section 340B Drug Pricing Program. Hospitals that participate (as "covered entities") in the prescription drug discount program established under Section 340B of the federal Public Health Service Act (the "340B Program") are able to purchase certain outpatient prescription drugs for their patients at a reduced cost. In recent years, the 340B Program has been the target of several administrative efforts to reduce its scope and benefits. In 2015, HRSA published proposed 340B Drug Pricing Program Omnibus Guidance in the Federal Register, which could have had a negative effect on hospitals participating as covered entities in the 340B program. This proposed guidance was withdrawn in 2017. Whether HRSA will adopt new guidance in the future and what effects such guidance may have on hospitals participating in the 340B Program are unknown.

In the 2018 OPPS final rule, CMS reduced reimbursement for certain separately payable drugs or biologicals acquired through the 340B Program to the average sales price ("ASP") of the drug or biological minus 22.5% (a 28 percentage point reduction in payments for 340B Program drugs). CMS finalized an extension to this payment reduction policy for calendar year 2019. In the calendar year 2020 OPPS final rule, CMS finalized a policy to continue to pay ASP minus 22.5% for 340B-acquired drugs furnished by non-excepted off-campus HOPDs.

In December 2018, the D.C. District Court ruled that DHHS did not have statutory authority to implement the 2018 Medicare OPPS rate reduction related to hospitals that qualify for drug discounts under the 340B Program and granted a permanent injunction against the payment reduction. The hospitals subsequently asked the court for a

permanent injunction on the 2019 OPPS final rule. In May 2019, the court held that the 2018 and 2019 rate reductions were unlawful and remanded the rules back to DHHS. However, on July 31, 2020, the U.S. Court of Appeals for the D.C. Circuit reversed the District Court and held that DHHS's decision to lower drug reimbursement rates for 340B hospitals rests on a reasonable interpretation of the Medicare statute. The American Hospital Association has appealed this decision to the U.S. Supreme Court. In the calendar year 2021 OPPS final rule, CMS finalized a policy to continue to pay ASP minus 22.5% for 340B-acquired drugs furnished by non-excepted off-campus hospital outpatient departments. Management of SHC is unable to predict the ultimate outcome of any appeal and the type of relief that may be ordered by the courts. There can be no assurance, however, that CMS or Congress will not propose future changes to the 340B Program that would reduce the financial benefits of that program for hospitals.

Employer Status. Hospitals are major employers with mixed technical and nontechnical workforces. Labor costs, including salary, benefits and other liabilities associated with a workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (i) imposing higher minimum or living wages; (ii) adoption of more stringent occupational health and safety standards; (iii) limiting the ability of workers to be classified as independent contractors, and imposing joint employer status on employers using contract, staffing agency or other temporary labor; and (iv) penalizing employers of undocumented immigrants; and (v) complying with the employer requirements of the ACA. Any changes to laws related to visas and other immigration matters, and enforcement thereof, could impact health care providers that employ personnel who have employment-based or other visas. Legislation or regulation on any of the above or related topics could have a material adverse impact on SHC.

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

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

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 class actions. For large employers, such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and settlements. A major class action decided or settled adversely to SHC could have a material adverse impact on the financial conditions and results of operations.

IRS Scrutiny of Employee Classification. The IRS is aggressively pursuing businesses, including nonprofit tax-exempt organizations, that misclassify their employees as independent contractors. A number of employers incorrectly treat their workers (or a class or group of workers) as independent contractors or other nonemployees to reduce their employment tax withholding burden. An IRS audit of employee classification can result in employment tax liability for the employers, as well as interest and penalties on the amounts owed. Whether a worker is performing services as an employee or as an independent contractor depends on facts and circumstances and generally is determined under various common law tests, such as whether the service recipient has the right to direct and control the worker regarding how he or she performs the services. The IRS is offering a Voluntary Classification Settlement

program that provides partial relief from federal employment taxes owed for employers that agree to prospectively treat workers as employees and not independent contractors.

The risk associated with employee misclassification may be compounded by the implementation of California Assembly Bill 5 ("AB 5") that became effective January 1, 2020. Under AB 5, a workforce member would be presumed to be an employee unless it is demonstrated that: (i) the person is free from the control and direction of an employer in connection with the performance of the work, both under the contract for the performance of the work and in fact; (ii) the person performs work that is outside the usual course of the employer's business; and (iii) the person is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed. The law exempts physicians, surgeons, dentists, podiatrists and psychologists, but would likely apply to other health care professionals such as nurses, physical therapists, health aides, and other workers who may be necessary for the operations of SHC. To the extent that more health care workers will need to be classified as employees, the legislation may have a material adverse impact on SHC.

Staffing. From time to time, the health care industry suffers from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care and information system technicians. In addition, aging medical and nursing staffs and difficulties in recruiting individuals to these medical professions are predicted to result in 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 other health care professionals, coupled with increased recruiting and retention costs, will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals and other health care facilities. This scarcity may further be intensified if utilization of health care services increases as a consequence of the ACA's expansion of the number of insured consumers. As reimbursement amounts are reduced to health care facilities and organizations that employ or contract with physicians, nurses and other health care professionals, pressure to control and possibly reduce wage and benefit costs may further strain the supply of those professionals.

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 of 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 SHC 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 and bill health care services and to accurately report financial results depends on the integrity of the data stored within information systems, as well as the operability of such 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. See "—Regulatory Environment—HIPAA, HITECH, and Other Privacy and Security Requirements" above. 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 hospitals and health care providers.

Future government regulation and adherence to technological advances could result in an increased need of SHC to implement new technology. Such implementation could be costly and is subject to cost overruns and delays in application, which could negatively affect the financial condition of SHC.

Cybersecurity Risks. Health care providers are highly dependent upon integrated electronic medical record and other information technology systems to deliver high quality, coordinated and cost-effective health care. These systems necessarily hold large quantities of highly sensitive protected health information that is highly valued on the black market for such information. As a result, the electronic systems and networks of health care providers are targets for cyberattacks and other potential breaches of their systems. In addition to regulatory fines and penalties, the health care entities subject to the breaches, as opposed to the vendor or other third party responsible for the breach, may ultimately be liable for the costs of remediating the breaches, damages to individuals (or classes) whose information has been breached, reputational damage and business loss, and damage to the information technology infrastructure. SHC has taken, and continues to take measures to protect its information technology system against such cyberattacks, but there can be no assurance that SHC will not experience a significant breach. If such a breach occurs, the financial consequences of such a breach could have a material adverse impact on SHC.

Increasing Cost of Modern Technology. Technological advances in recent years have forced hospitals to acquire sophisticated and costly equipment to remain technologically current. Moreover, the growth of e-commerce may also result in a shift in the way that health care is delivered, *i.e.*, from remote locations. For example, physicians will now be able to provide certain services over the internet and pharmaceuticals and other health services may now be purchased online. If, due to financial constraints, SHC was less able to acquire new equipment required to remain technologically current, the operations and financial condition of SHC could be materially adversely affected.

Infectious Disease Outbreak. SHC's business and financial results could be harmed by an international, national or localized outbreak of a highly contagious or epidemic disease. Existing or future outbreaks of an infectious disease, such as the COVID-19 virus, Middle East Respiratory Syndrome virus, Severe Acute Respiratory Syndrome virus, Zika virus, or Ebola virus, that occur internationally, nationally or in SHC's service area, could adversely affect SHC's business and financial results and delay or disrupt the production or delivery of pharmaceuticals and other medical supplies. The treatment of a highly contagious disease at one of SHC's facilities may result in a temporary shutdown or diversion of patients, harm to workforce personnel, and overburdening of facilities. In addition, unaffected individuals may decide to defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues. SHC cannot predict any costs associated with the potential treatment of an infectious disease outbreak or preparation for such treatment. The extent to which business interruption insurance would be available in connection with such events is dependent on the specific facts of the events, and there can be no assurance that adequate business interruption insurance coverage would be available to cover losses in such event.

Big Data. Health care providers are increasingly analyzing or partnering or contracting with others to analyze health care "Big Data," *i.e.*, datasets of such volume or breadth that cannot be analyzed using ordinary database software tools. In particular, large hospitals may analyze health care Big Data for operational purposes such as to measure value-based performance. Hospitals may also enter into research collaborations with technology companies to analyze health care Big Data for research purposes. HIPAA provides pathways for the use and disclosure of individually identifiable health information held by covered entities for operational or research purposes. HIPAA covered entities and their business associates must comply with stringent privacy and security requirements which, if not met, can lead to significant exposure both with respect to the government and civil litigants. For example, to share individually identifiable health information with a research partner, a hospital may choose to de-identify such

information. Failure to properly de-identify could result in significant financial exposure particularly due to the volume of patients affected. SHC may use or share health care Big Data for operational and research purposes and due to the complexity of HIPAA's requirements, non-compliance in this context in the future could result in a material adverse impact.

Affiliations, Merger, Acquisition and Divestiture

SHC evaluates and pursues potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, SHC reviews the use, compatibility and business viability of many of the operations of SHC, and from time to time SHC may pursue changes in the use of, or disposition of, its facilities. Likewise, SHC occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of operations and properties that may become subsidiaries or affiliates of SHC in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by SHC. Discussion with respect to affiliation, merger, acquisition, disposition or change of use of facilities, including those which may affect SHC, are held from time to time with other parties. These may be conducted with acute care hospital facilities and may be related to potential affiliation between SHC and another party, including potential affiliation with such other party's obligated group. As a result, it is possible that the current organization and assets of SHC may change from time to time. See "SECURITY AND SOURCE OF PAYMENT FOR THE TAXABLE BONDS—The Master Indenture—Replacement of Obligation No. 44" herein.

In addition to relationships with other hospitals and physicians, SHC may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises that support the overall operations of SHC. In addition, SHC may pursue transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management will consider these arrangements if there is a perceived strategic or operational benefit for SHC. Any initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which SHC may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to SHC.

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of SHC and any future Members of the Obligated Group. Loss of tax-exempt status of SHC or any future Member of the Obligated Group could result in the loss of tax exemption of tax-exempt debt issued for the benefit of SHC and the Obligated Group, and defaults in covenants regarding the tax-exempt debt could be triggered. Such an event could have material and adverse consequences on the financial condition of the Obligated Group. Management of SHC is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax-exempt status of SHC.

The maintenance of SHC's tax-exempt status, as an organization described in Section 501(c)(3) of the Code, is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and other permissible purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See "—Regulatory Environment—Anti-Kickback Law" above. As a result, tax-exempt hospitals, such as SHC, which have, and will continue to have, extensive relationships with physicians are subject to an increased degree of scrutiny and perhaps enforcement by the IRS.

The ACA also contains requirements for tax-exempt hospitals through Section 501(r) of the Code. 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 adopt a written 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.

On December 29, 2014, the Secretary of the Treasury issued final regulations under Section 501(r) of the Code that provide detailed and comprehensive guidance relating to requirements for community health needs assessments, financial assistance policies, emergency medical care policies, limitations on charges and billing and collection practices, and also provide guidance on consequences of failure to satisfy Section 501(r) requirements. A failure to comply with the provisions of Section 501(r) of the Code and the final regulations issued thereunder could result in a loss of tax-exempt status or otherwise subject revenues of a hospital facility to federal income tax.

In addition, the 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, and may increase the risk of passage of legislation to repeal the exemption of nonprofit hospitals from federal income taxes.

SHC participates in a variety of joint ventures and transactions with physicians either directly or indirectly. Management believes that the joint ventures and transactions to which SHC 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. Any change in or violation of the applicable rules could adversely affect the tax-exempt status of SHC as an organization described in Section 501(c)(3) of the Code. Such a change or violation may also require the dissolution of one or more joint ventures, which could have material adverse consequences to SHC.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. Certain audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and the audited organization. These audits examine a wide range of possible issues, including tax-exempt bond financings, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that SHC or any future Member of the Obligated Group 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 SHC potentially could result in loss of tax exemption of the tax-exempt debt of SHC or any future Member of the Obligated Group, and defaults in covenants regarding the Taxable Bonds and other tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of SHC or any future Member of the Obligated Group . For these reasons, loss of tax-exempt status of SHC could have a material adverse effect on the financial condition and results of operations of the Obligated Group.

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

In addition, the IRS may impose a penalty in the form of excise taxes on certain "excess benefit transactions" involving 501(c)(3) organizations and "disqualified persons." An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt

organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any "organization manager" who knowingly participates in an excess benefit transaction. These rules do not currently penalize the exempt organization itself, so there would be no direct impact on a Member of the Obligated Group or the tax status of its tax-exempt bonds if an excess benefit transaction were subject to IRS enforcement, pursuant to these "intermediate sanctions" rules. However, these intermediate sanctions do not replace other remedies available to the IRS, including revocation of tax-exempt status.

The IRS and state, county and local taxing authorities may undertake audits and reviews of the operations of tax-exempt hospitals with respect to the generation of unrelated business taxable income ("UBTI"). SHC participates in activities that may generate UBTI. The level of these activities is currently immaterial, but these activities could increase in the future. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of SHC, as well as the exclusion from gross income for federal tax purposes of the interest payable on tax-exempt debt issued for SHC.

State and Local Tax Exemption. Until recently, California has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. With some overlap with the ACA's mandates, California laws also require tax-exempt hospitals to conduct a community needs assessment, to adopt an implementation strategy, and to have a charity care policy. It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems. It is likely that the loss by SHC or any future Member of the Obligated Group of federal tax exemption would also trigger a challenge to its 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. For example, a court in New Jersey decided that a nonprofit hospital should pay property taxes on almost all of its property because it did not meet the legal test that it operated as a nonprofit, charitable organization during certain years. At this time, it is uncertain whether this state-specific case will have a negative impact on the broader nonprofit hospital community. Subjecting significant amounts of real property to taxation could adversely affect health care organizations. The majority of the real property of SHC is currently treated as exempt from real property taxation.

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

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

Other Risk Factors

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in Northern California could have a material adverse effect on SHC and could result in material damage

and temporary or permanent cessation of operations at SHC's facilities. SHC currently does not carry earthquake insurance coverage.

California law requires each acute care hospital in the State to evaluate and upgrade its patient care facilities to meet stated seismic standards by 2008 or, in certain cases, by 2030; ultimate deadlines depend on each acute hospital building's structural performance category. OSHPD has been directed to review previously established seismic performance categories for hospital buildings using new software technology known as "HAZUS." Reevaluation under HAZUS may result in buildings not being required to meet any new seismic standards until 2030. California law has been amended to allow various types of extensions of the 2008 deadline to 2022, or 2025, provided that the facility qualifies for such extension and certain requirements are met in enumerated time periods, including demonstrating to OSHPD reasonable progress towards meeting the ultimate deadlines.

Construction Risks. As SHC continues to implement its Master Plan, SHC is continuing to undertake construction projects 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. See APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs."

Replacement Master Indenture. SHC has the ability to cause the Master Trustee to accept the substitution of a Replacement Master Indenture for the Master Indenture upon the satisfaction of certain conditions set forth in the Indenture. Other entities not in the Obligated Group may be parties to the Replacement Master Indenture. No assurance can be given that the New Group under the Replacement Master Indenture will not be different from the Obligated Group under the Master Indenture, or that the financial condition or results of operations of the New Group under the Replacement Master Indenture will not be materially different from the Obligated Group.

Risks Related to Variable Rate Obligations. SHC 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 SHC 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 to SHC's outstanding variable rate obligations, SHC may elect to convert the Tax-Exempt Bonds (if issued) to a variable interest rate period subsequent to the end of the initial Long-Term Interest Rate Period for such Tax-Exempt Bonds.

Approximately $84.1 million of outstanding variable rate bonds issued on behalf of SHC 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. SHC also has approximately $84.1 million of outstanding variable rate bonds issued in the commercial paper rate mode, which would be subject to tender at the end of their respective roll periods. None of such variable rate bonds are supported by either a credit facility or a liquidity facility. If any variable rate bonds are tendered for purchase, or, in the case of variable rate bonds in the commercial paper rate mode, come to the end of their respective roll periods, and are not remarketed, SHC will be obligated to purchase such bonds.

The Tax-Exempt Bonds (if issued) would be subject to mandatory tender after the end of their initial Long-Term Interest Rate Period. Assuming their issuance, the Tax-Exempt Bonds will not be supported by a Credit Facility or Liquidity Facility upon their issuance. If the Tax-Exempt Bonds are tendered for purchase and not remarketed, SHC will be obligated to purchase such Tax-Exempt Bonds. In addition, subsequent to the end of the initial Long-Term Interest Rate Period for the Tax-Exempt Bonds, SHC may elect to convert the Tax-Exempt Bonds to an interest rate period that includes an optional tender right.

Risks Related to Interest Rate Swaps. SHC 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 SHC. The Swaps counterparty may terminate the Swaps upon the occurrence of certain "termination events" or "events of default." SHC may terminate the Swaps at any time.

If either the counterparty to the Swaps or SHC terminates any of the Swaps during a negative value situation, SHC 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 SHC, which payments may be more or less than the interest rates SHC 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. SHC 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 HEALTH CARE—SUMMARY OF FINANCIAL INFORMATION—Interest Rate Swap Arrangements."

Investments. SHC 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 SHC's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD HEALTH CARE—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 SHC's total receipt of charitable contributions. Failure to collect committed donations or to receive sufficient additional pledges of support may impair SHC's ability to complete the construction projects or to develop programs or services that are dependent on charitable contributions. No assurances can be given that SHC 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 SHC, or the market value of health care revenue bonds, including the Taxable Bonds, to an extent that cannot be determined at this time.

(a) Adoption of legislation or implementation of regulations 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, or that would extend the scope of such programs to persons currently covered under commercial insurance programs.

(b) Reduced demand for the services of health facilities that might result from decreases or shifts 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, employers and governmental agencies to limit the cost of hospital services, to reduce the number of hospital beds or other ancillary services and to reduce the utilization of health facilities by such means as prescribed protocols, preventive medicine, improved occupational health and safety and outpatient care or comparable attempts by third-party payors to control or restrict the operations of certain health care facilities.

(e) Regulatory actions, which might limit the ability of hospitals to undertake capital improvements at its facilities or to develop new institutional health services.

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

(g) Increased unemployment or other adverse economic conditions in the service area of SHC, which would increase the proportion of patients who are unable to pay fully for the cost of their care.

(h) Competition from other hospitals and other competitive facilities now or hereafter located in SHC's service area, which could adversely affect revenues.

(i) Development of health maintenance and other alternative health delivery programs, which could result in decreased usage of inpatient hospital facilities.

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

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of SHC as of August 31, 2020 and 2019 and for the years then ended included in APPENDIX B to this Offering Memorandum, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

VERIFICATION

Concurrently with the issuance of the Taxable Bonds, Causey, Demgen & Moore, P.C. (the "Verification Agent") will deliver a report with respect to the mathematical accuracy of certain computations, contained in schedules provided to them, which were prepared by Goldman Sachs & Co. LLC, relative to the sufficiency of moneys deposited into the escrow funds established pursuant to the escrow agreement for the 2012A Bonds, to pay when due, the principal, interest and redemption price requirements of the 2012A Bonds. The report of the Verification Agent will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the aforesaid computations and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of the report.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature, to the knowledge of its officers, now pending or threatened against SHC restraining or enjoining the issuance, sale, execution or delivery of the Taxable Bonds, or in any way contesting or affecting the validity of the Taxable Bonds.

As with most hospitals, SHC is subject to legal actions which, in whole or in part, are not or may not be covered by insurance or self-insurance because of the type of action (such as employee, contract or competition law claims) or remedies requested (such as punitive damages), because of a reservation of rights by an insurance carrier or self-insurance program, or because the action has not proceeded to a stage which permits full evaluation. Since these actions either claim punitive damages which could become a liability of SHC and/or state or threaten causes of action which may not be covered by insurance or self-insurance, insurers for SHC and the self-insurance program have not provided assurance of coverage, and to the extent any cases have not been served, counsel has not been retained to evaluate them.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

General

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds. The discussion below is based upon current provisions of the Code, current final, temporary and proposed Treasury regulations, judicial authority and current administrative rulings and pronouncements of the Internal Revenue Service (the "IRS"), all as in effect on the date of this Offering Memorandum. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or is expected to be, sought on the issues discussed herein. Legislative, judicial, or administrative changes or interpretations may occur that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences discussed below.

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders

of Taxable Bonds and does not address U.S. federal gift or (for U.S. Holders) estate tax consequences or alternative minimum, foreign, state, local or other tax consequences or the 3.8% tax on net investment income. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate mortgage investment conduits, real estate investment trusts, grantor trusts, individual retirement accounts or other tax-deferred accounts, former citizens or long-term residents of the United States, persons whose functional currency is not the U.S. dollar, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons that hold Taxable Bonds as part of a hedge against currency risk, or that are part of a hedge, straddle, conversion, constructive ownership, constructive sale transaction, or other risk reduction or integrated transaction. This summary also does not address the tax consequences to an owner of Taxable Bonds held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes. In addition, this discussion is limited to persons purchasing the Taxable Bonds for cash in this offering at the price listed on the cover page of this Offering Memorandum. This discussion assumes that the Taxable Bonds will be held as capital assets within the meaning of Section 1221 of the Code.

As used herein, the term "U.S. Holder" means a beneficial owner of Taxable Bonds that is (i) a citizen or individual resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity classified as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of the Code) has the authority to control all of the substantial decisions of such trust or (b) the trust has made a valid election under applicable Treasury regulations to be treated as a United States person (within the meaning of the Code). As used herein, the term "Non-U.S. Holder" means a beneficial owner of Taxable Bonds that is not a U.S. Holder.

If a partnership (or other entity or arrangement classified as a partnership or other pass-through entity for U.S. federal income tax purposes) holds Taxable Bonds, the tax treatment of a partner (or other owner) in such partnership or other entity generally will depend on the status of the partner (or other owner) and the activities of the partnership (or other entity). Partnerships and other entities or arrangements that are classified as partnerships or other pass-through entities for U.S. federal income tax purposes and persons holding Taxable Bonds through any such entity or arrangement should consult an independent tax advisor.

Certain accrual basis taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Taxable Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below. Notwithstanding the foregoing, final regulations concerning accrual basis taxpayers may eliminate such requirement for original issue discount ("OID") and certain other types of income with respect to the Taxable Bonds.

If the liability of SHC in respect of a Taxable Bond ceases as a result of an election by SHC to pay and discharge the indebtedness on such Taxable Bond by depositing with the Trustee sufficient cash and/or obligations to pay or redeem and discharge the indebtedness on such Taxable Bond (a "legal defeasance"), under current tax law a holder will be deemed to have sold or exchanged such Taxable Bond. In the event of such a legal defeasance, a holder generally will recognize gain or loss on the deemed exchange of the Taxable Bond. SHC may be required to report certain information regarding such a defeasance that may be relevant to U.S. Holders including (1) by filing Form 8937 with the IRS and providing copies to certain of its U.S. Holders or (2) by posting the form on its website. Ownership of the Taxable Bond after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different than those described in this "CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS" section and each holder should consult its own tax advisor regarding the consequences to such holder of a legal defeasance of a Taxable Bond.

In certain circumstances, SHC may be obligated to pay amounts in excess of the stated principal on the Taxable Bonds and/or may prepay or redeem all or a portion of the Taxable Bonds. The obligation to make such payments may implicate the provisions of U.S. Treasury regulations relating to "contingent payment debt instruments" in which case the timing and amount of income inclusions and the character of income recognized may be different from the consequences discussed herein. According to the applicable U.S. Treasury regulations, certain contingencies

will not cause a debt instrument to be treated as a contingent payment debt instrument if such contingencies in the aggregate, as of the date of issuance, are either "remote" or "incidental" or if certain other rules apply. Although the matter is not free from doubt, SHC believes and intends to take the position if required that either such contingencies should be treated as remote and/or incidental or that the rules on "contingent payment debt instruments" otherwise would not be applicable. The position that the Taxable Bonds are not contingent payment debt instruments is binding on a holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations. SHC's position is not, however, binding on the IRS, and if the IRS were to successfully challenge this position, it could affect the amount, timing and character of U.S. Holder's income with respect to the Bond. The remainder of this disclosure assumes that SHC's determinations described above are correct. Holders should consult an independent tax advisor as to the tax considerations relating to the contingent payments and prepayment and redemption rights described above.

BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, PROSPECTIVE HOLDERS OF THE TAXABLE BONDS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR TAX SITUATIONS AND AS TO ANY FEDERAL, FOREIGN, STATE, LOCAL OR OTHER TAX CONSIDERATIONS (INCLUDING ANY POSSIBLE CHANGES IN TAX LAW) AFFECTING THE PURCHASE, HOLDING AND DISPOSITION OF THE TAXABLE BONDS.

Certain U.S. Federal Income Tax Consequences to U.S. Holders

This section describes certain U.S. federal income tax consequences to U.S. Holders. Non-U.S. Holders should see the discussion under the heading "—Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders" for a discussion of certain tax consequences applicable to them.

Interest. Interest on the Taxable Bonds will generally be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

If a Taxable Bond is issued at a discount from its stated redemption price at maturity, and the discount is at least the product of one-quarter of one percent (0.25%) of the stated redemption price at maturity of the Taxable Bond multiplied by the number of full years to maturity, the Taxable Bond will be an "OID Bond." In general, the excess of the stated redemption price at maturity of an OID Bond over its issue price within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of the Taxable Bonds of that maturity are sold to the public for cash) will constitute OID for U.S. federal income tax purposes. The stated redemption price at maturity of a Taxable Bond is the sum of all scheduled amounts payable on the Taxable Bond (other than qualified stated interest). The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of SHC), or that is treated as constructively received, at least annually at a single fixed rate. U.S. Holders of OID Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

If a Taxable Bond is issued at a price greater than the principal amount payable at maturity, a U.S. Holder generally will be considered to have purchased the Taxable Bond at a premium, and generally may elect to amortize the premium as an offset to interest income otherwise required to be included in respect of the Taxable Bond during a taxable year, using a constant-yield method, over the remaining term of the Taxable Bond. If a U.S. Holder makes the election to amortize the premium, it generally will apply to all debt instruments held by such U.S. Holder at the time of the election, as well as any debt instruments that are subsequently acquired by such U.S. Holder. In addition, a U.S. Holder may not revoke the election to amortize the premium without the consent of the IRS. If such U.S. Holder elects to amortize the premium, such U.S. Holder may offset interest otherwise required to be included in respect of the Taxable Bond during any taxable year by the amortized amount of such premium for the taxable year, and will be required to reduce its tax basis in the Taxable Bond by the amount of the premium amortized during the holding period of the U.S. Holder. If such U.S. Holder does not elect to amortize premium, the amount of premium will be included in its tax basis in the Taxable Bond. Therefore, if a U.S. Holder does not elect to amortize premium and holds the Taxable Bond to maturity, the premium will decrease the amount of gain or increase the amount of loss otherwise recognized on the disposition of such Taxable Bond. Special rules for determining the amount of

amortizable bond premium attributable to a debt instrument may be applicable if the debt instrument may be optionally redeemed. These rules are complex and prospective purchasers of the Taxable Bonds are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Disposition of the Taxable Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption (including pursuant to an offer by SHC) or other disposition of a Taxable Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of Taxable Bonds will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Bonds which will be taxed in the manner described above under "Interest") and (ii) the U.S. Holder's adjusted tax basis in the Taxable Bonds. A U.S. Holder's adjusted tax basis in a Taxable Bond generally will equal the purchase price paid by the U.S. Holder increased by any original issue discount included in income and decreased by the amount of payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to the Taxable Bond. Any such gain or loss generally will be long-term capital gain or loss, provided the Taxable Bonds have been held for more than one year at the time of the disposition. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. Payments of interest on the Taxable Bonds (including OID, if any) will be generally subject to IRS information reporting and "backup withholding." Under section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Taxable Bonds may be subject to backup withholding at the then current rate with respect to "reportable payments," which include interest paid on the Taxable Bonds and the gross proceeds of a sale, exchange, redemption or retirement of the Taxable Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under section 3406(a)(1)(C) of the Code.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders

This section describes certain U.S. federal income and estate tax consequences to Non-U.S. Holders. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a "controlled foreign corporation" or a "passive foreign investment company," and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the effect of U.S. federal, state, local and non-U.S. tax laws, as well as tax treaties, with respect to an investment in the Taxable Bonds.

Interest. If, under the Code, interest on the Taxable Bonds is "effectively connected with the conduct of a trade or business within the United States" by a Non-U.S. Holder (and, if an applicable treaty so requires, is attributable to the conduct of a trade or business through a permanent establishment or fixed base in the United States), such interest will be subject to U.S. federal income tax in a similar manner as if the Taxable Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI to SHC or its paying agent, if any.

Interest on the Taxable Bonds held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the "portfolio interest" exemption applies. In general, interest paid on the Taxable Bonds to a Non-U.S. Holder will qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (i) such Non-U.S. Holder is not a "controlled foreign corporation" (within the meaning of section 957 of the Code) related, directly or indirectly, to SHC; (ii) the Non-U.S. Holder is not actually or constructively a "10-percent shareholder" under Section 871(h) of the Code; (iii) the Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code; (iv) the interest is not effectively

connected with the conduct by the Non-U.S. Holder of a trade or business in the United States under Section 871(b) or Section 882 of the Code; and (v) either (a) SHC or its paying agent, if any, receives from the Non-U.S. Holder who is the beneficial owner of the obligation a statement signed by such person under penalties of perjury, on IRS Form W-8BEN or W-8BEN-E (or successor form), certifying that such owner is not a U.S. Holder and providing such owner's name and address or (b) a securities clearing organization, bank or other financial institution that holds the Taxable Bonds on behalf of such Non-U.S. Holder in the ordinary course of its trade or business certifies to SHC or its paying agent, if any, under penalties of perjury, that such an IRS Form W-8BEN or W-8BEN-E (or a successor form) has been received from the beneficial owner by it and furnishes SHC or its paying agent, if any, with a copy thereof. A certificate is effective only with respect to payments of interest made to the certifying Non-U.S. Holder after issuance of the certificate in the calendar year of its issuance and the two immediately succeeding calendar years. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on interest payments on the Taxable Bonds. However, the Non-U.S. Holder may be able to claim the benefit of a reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on Form W-8BEN or W-8BEN-E. In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

Disposition of the Taxable Bonds. A Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption, retirement, or other disposition of a Taxable Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Taxable Bonds, which will be treated as interest). A Non-U.S. Holder may, however, be subject to U.S. federal income tax on such gain if: (i) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met under Section 871(a)(2) of the Code; or (ii) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

Information Reporting and Backup Withholding. SHC or its paying agent, if any, must report annually to the IRS and to each Non-U.S. Holder any interest (including OID, if any) that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Taxable Bonds as long as the Non-U.S. Holder (i) has furnished to SHC or its paying agent, if any, a valid IRS Form W-8BEN or W-8BEN-E (or successor form) certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to SHC or its paying agent, if any, other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Taxable Bonds through the U.S. office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Taxable Bonds through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

U.S. Federal Estate Tax. A Taxable Bond held or beneficially owned by an individual who, for estate tax purposes, is not a citizen or resident of the United States (as determined for estate tax purposes) at the time of death will not be includable in the decedent's gross estate for U.S. estate tax purposes, provided that, at the time of death,

(i) the interest income on the Taxable Bond qualifies for the "portfolio interest exemption" described above under "— interest" and (ii) payments with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. In addition, the U.S. estate tax may be inapplicable to such Taxable Bond under the terms of an applicable estate tax treaty.

FATCA Withholding. Certain withholding rules imposed under Section 1471 through 1474 of the Code (otherwise known as the "Foreign Account Tax Compliance Act" or "FATCA") generally impose a 30% U.S. withholding tax on payments of interest (including OID, if any) made to non-U.S. financial institutions and certain other non-U.S. nonfinancial entities (whether such financial institutions or nonfinancial entities are beneficial owners or intermediaries), unless they satisfy certain due diligence and information reporting requirements. An intergovernmental agreement between the United States and the holder's jurisdiction may modify these requirements. While withholding under FATCA would also have applied to payments of gross proceeds from the sale or other disposition of the Taxable Bonds on or after January 1, 2019, proposed U.S. Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Although these U.S. Treasury Regulations are not final, they can be relied upon until final U.S. Treasury Regulations are issued. Prospective holders are encouraged to consult with their own tax advisors regarding the implications of this legislation and the applicable regulations on their investment in a Taxable Bond.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF TAXABLE BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAXABLE BONDS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans") regarding prohibited transactions, and also imposes certain obligations on those persons who are fiduciaries with respect to ERISA Plans. Section 4975 of the Code imposes similar prohibited transaction restrictions on certain tax-qualified retirement plans and individual retirement accounts. (together with ERISA Plans, "Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), non-U.S. plans, and many church plans (as defined in Section 3(33) of ERISA), are not subject to the requirements of ERISA or Section 4975 of the Code. Although assets of such governmental, non-U.S. plans, or church plans may be invested in the Taxable Bonds without regard to the ERISA and Code considerations described below, any such investment may be subject to provisions of applicable federal, state or local law that are similar to the requirements of ERISA and Section 4975 of the Code ("Similar Law").

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of Plans and entities whose underlying assets include plan assets by reason of Plans investing in such entities and persons who have certain specified relationships to the Plans (such persons are referred to as "Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative class exemption is available.

Certain transactions involving a Plan's purchase, holding or transfer of the Taxable Bonds might be deemed to constitute prohibited transactions under ERISA and the Code if SHC, the Underwriters, the Master Trustee or the Trustee, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Plan. The fiduciary of a Plan that proposes to purchase and hold any Taxable Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in

Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest, or (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets.

Certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the Plan fiduciary making the decision to acquire a Taxable Bond. Included among these exemptions are: Prohibited Transaction Class Exemption ("PTCE") 75-1, relating to certain broker-dealer transactions, PTCE 96-23, regarding transactions effected by "in-house asset managers"; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by "insurance company general accounts"; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers." In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in Interest solely by reason of providing services to such Plans or who are persons affiliated with such service providers, provided generally that such persons are not fiduciaries with respect to "plan assets" of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a Taxable Bond, each purchaser will be deemed to have represented and warranted that either (i) the purchaser is not, and is not acting on behalf of, a Plan or an entity which is subject to ERISA, Section 4975 of the Code or any Similar Law, or (i) the purchase and holding of such Taxable Bond does not constitute a non-exempt prohibited transaction under ERISA, Section 4975 of the Code or a violation of any Similar Law.

Any Plan fiduciary considering whether to purchase Taxable Bonds on behalf of a Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such investment and the availability of any of the exemptions referred to above. In addition, persons responsible for considering the purchase of Taxable Bonds by a governmental plan, a non-U.S. plans, or a non-electing church plan should consult with its counsel regarding the applicability of any Similar Law to such an investment.

APPROVAL OF LEGALITY

Certain legal matters will be passed upon for SHC by Ropes & Gray LLP, San Francisco, California, and for the Underwriters by their counsel, Norton Rose Fulbright US LLP, San Francisco, California.

RATINGS

Fitch Ratings ("Fitch"), S&P Global Ratings ("S&P") and Moody's Investors Service ("Moody's") have assigned long-term municipal bond ratings of "AA," "AA-" and "Aa3," respectively, to the Taxable Bonds.

Any explanation of the significance of ratings may only be obtained from the rating agencies.

SHC has furnished to the rating agencies certain information and material concerning the Taxable Bonds and itself. Generally, rating agencies base their ratings on this information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agency, if in its judgment circumstances so warrant. Any downward change in or withdrawal of any ratings might have an adverse effect on the market price or marketability of the Taxable Bonds.

UNDERWRITING

Pursuant to a Bond Purchase Contract for the Taxable Bonds (the "Purchase Contract"), Goldman Sachs & Co. LLC, as the representative of the underwriters named on the cover of this Offering Memorandum (collectively, the "Underwriters"), has agreed to purchase the Taxable Bonds at a purchase price of $365,100,000.00, which amount represents the par amount of the Taxable Bonds. SHC has agreed to pay the Underwriters underwriting compensation of $1,478,655.00 with respect to the Taxable Bonds. The Purchase Contract provides that the Underwriters will

purchase all of the Taxable Bonds, if any are purchased, and contains the agreements of SHC to indemnify the Underwriters against certain liabilities. The Purchase Contract also provides that SHC will pay the fees of counsel to the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities sales and trading, commercial and investment banking, municipal advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to SHC and to persons and entities with relationships with SHC, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of SHC (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with SHC. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

SHC intends to use the proceeds of the Taxable Bonds to defease the 2012A Bonds. To the extent an Underwriter or an affiliate thereof is an owner of any of the 2012A Bonds, the Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the Taxable Bonds in connection with such 2012A Bonds being defeased by SHC.

FINANCIAL ADVISOR

Ponder & Co. has served as financial advisor to SHC for purposes of assisting with the development and implementation of a bond structure in connection with the Taxable Bonds. Ponder & Co. is not obligated to undertake, and has not undertaken, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Offering Memorandum. Ponder & Co. is an independent advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

RELATIONSHIPS AMONG THE PARTIES

Certain of the parties acting with respect to the offering, sale, issuance and securing of the Taxable Bonds (this "Transaction") act for parties related to SHC. Ropes & Gray LLP is acting as counsel to SHC in this Transaction. Ropes & Gray LLP also acts as outside counsel for Stanford University and Lucile Salter Packard Children's Hospital at Stanford ("LPCH"). PricewaterhouseCoopers LLP, which is acting as the independent auditors of the financial statements of SHC, also acts as the independent auditors of the financial statements of Stanford University and LPCH. Goldman Sachs & Co. LLC, which is acting as an Underwriter in this Transaction, also acts as an underwriter for Stanford University. Ropes & Gray LLP also will act as counsel to SHC with respect to the issuance of the Tax-Exempt Bonds, if issued, and the establishment of the CP Program, if established. Goldman Sachs & Co. LLC and RBC Capital Markets, LLC also will act as underwriters with respect to the issuance of the Tax-Exempt Bonds, if issued. RBC Capital Markets, LLC also will act as dealer with respect to the CP Program, if established.

MISCELLANEOUS

Any statements in this Offering Memorandum involving matters of opinion, whether or not expressly stated as such, are so intended and are not representations of fact.

The foregoing and subsequent summaries or description of provisions of the Taxable Bonds, the Indenture, the Master Indenture and Obligation No. 44 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. Reference is made to said documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Offering Memorandum. Copies, in reasonable quantity, of the Indenture, the Master Indenture and Obligation No. 44 may be obtained during the offering period upon request directed to Goldman Sachs & Co. LLC, 200 West Street, 30th Floor, New York, New York 10282.

OTHER MATTERS

This Offering Memorandum has been executed and delivered by SHC. This Offering Memorandum is not to be considered as a contract or agreement between SHC or the purchasers or Holders of any of the Taxable Bonds.

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STANFORD HEALTH CARE

By: /s/ Linda Hoff
Chief Financial Officer

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APPENDIX A

INFORMATION CONCERNING
STANFORD HEALTH CARE

TABLE OF CONTENTS

	Page
BACKGROUND AND ORGANIZATION	1
Introduction	1
Corporate Organization and Related Entities	2
Corporate Partners Program	4
Governance	5
Management	6
SERVICES, FACILITIES AND OPERATIONS	8
Principal Patient Services	8
Master Plan and Additional Capital Needs	10
The School of Medicine	11
Operational Relationships Among the Corporation, Stanford University, LPCH and UHA	13
Bed Complement	14
Service Area	15
Service Area Map	16
Market Strategy	19
Community Physician Network	20
Utilization	20
SUMMARY OF FINANCIAL INFORMATION	22
Management's Discussion and Analysis of Recent Financial Performance	24
Capitalization	28
Cash and Investments	29
Liquidity	29
Debt Service Coverage	30
Interest Rate Swap Arrangements	31
Sources of Revenue	32
Arrangements with Managed Care Plans	32
Hospital Fee Program	33
ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL CERTIFICATION	33
PROFESSIONAL LIABILITY AND OTHER INSURANCE	33
LITIGATION AND REGULATORY MATTERS	34
EMPLOYEES	35

BACKGROUND AND ORGANIZATION

Introduction

Stanford Health Care (the "Corporation" or "SHC") is the principal teaching affiliate of the Stanford University School of Medicine (the "School of Medicine") that provides primary and specialty health services to adults, including cardiovascular health, cancer treatment, solid organ transplantation services, orthopedics and neurosciences services. The Corporation, together with Lucile Salter Packard Children's Hospital at Stanford ("LPCH"), 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 605-bed tertiary, quaternary and specialty hospital facility recently and comprehensively transformed by construction of the hereinafter-described New Stanford 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 the majority of the Clinics are adjacent to the School of Medicine in Palo Alto, California located on the campus of Stanford University ("Stanford University"). Other Clinics are located elsewhere on campus, and off campus in neighboring communities and throughout the San Francisco Bay Area (the "Bay Area"). Completing an eight-year comprehensive hospital facility replacement project on November 17, 2019, the Corporation began providing services in the facility referred to in this Appendix A as the "New Stanford Hospital." The seven-story New Stanford Hospital building features 368 private patient rooms and 28 operating rooms. For more information concerning the New Stanford Hospital, see "SERVICES, FACILITIES AND OPERATIONS—SHC's Master Plan and Additional Capital Needs" herein. During the fiscal year ended August 31, 2020, SHC treated 76,688 patients in its emergency department, admitted 26,946 inpatients and recorded 989,603 outpatient visits, including telehealth visits. From these patient care activities, the Corporation reported, on a consolidated basis, total operating revenues and other support of $5.6 billion and income from operations of $21 million for the fiscal year ended August 31, 2020. At August 31, 2020, the Corporation's consolidated total assets were $9.16 billion, consolidated total liabilities were $4.8 billion and consolidated net assets were $4.3 billion.

The Corporation is solely responsible for the payment of principal of and interest on the Stanford Health Care Taxable Bonds, Series 2021 (the "Bonds") as described in this Offering Memorandum. Neither Stanford University, LPCH nor any of their respective affiliates other than the Corporation are obligated to pay debt service on the Bonds. Stanford University, LPCH and the Corporation are not co-guarantors of the debt of each other, and the Corporation, Stanford University and LPCH receive separate credit ratings from rating agencies.

Concurrently, with the issuance of the Bonds, the Corporation also expects to issue $157,715,000 total aggregate principal amount of tax-exempt bonds (the "Tax-Exempt Bonds") to be used for the refunding of certain outstanding revenue bonds previously issued by the Authority for the benefit of the Corporation as described under "THE PLAN OF FINANCE" in the forepart of this Offering Memorandum.

Capitalized terms used and not otherwise defined in this Appendix A have the meanings set forth in the forepart of this Offering Memorandum. Dollar amounts and percentages have been rounded in some cases to simplify the presentation of information in this Appendix A; in management's view, such amounts are stated materially accurately. More precise dollar amounts are set forth in the audited consolidated financial statements of the Corporation included as Appendix B to this Offering Memorandum.

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, including which of such entities are included in the Corporation's audited consolidated financial statements, see Note 1 and Note 2 of such financial statements included as Appendix B to this Offering Memorandum, and "SUMMARY OF FINANCIAL INFORMATION" herein. None of the entities listed below is a member of the Obligated Group; the Corporation is the only current member of the Obligated Group.

Stanford University. Stanford University, of which the School of Medicine is a part, is a trust with corporate powers, a tax-exempt organization under Section 501(c)(3) of the Code and 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, a California nonprofit public benefit corporation and a tax-exempt organization under Section 501(c)(3) of the Code, is the principal teaching affiliate of the School of Medicine that provides pediatric and obstetric services. LPCH operates a 361-bed pediatric and obstetric hospital (the "LPCH Hospital") and related outpatient clinics adjacent to the Hospital on Stanford University's campus and provides pediatric care in the Bay Area, including through joint ventures and partnerships with other hospitals and physicians. LPCH purchases certain services from the Corporation and shares certain services with the Corporation. Stanford University is also the sole member of LPCH. See "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA" herein.

University HealthCare Alliance ("UHA"). UHA is a California nonprofit public benefit corporation and a tax-exempt organization under Section 501(c)(3) of the Code that owns and operates multi-specialty clinics in support of the charitable, education and research purposes of the Corporation and the School of Medicine as a medical foundation. The Corporation and Stanford University are the corporate members of UHA. For further information about UHA, see "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA" and "—Community Physician Network" herein.

The Hospital Committee for the Livermore-Pleasanton Areas, doing business as Stanford Health Care – ValleyCare ("SHC-VC"). SHC-VC, a California nonprofit public benefit corporation and a tax-exempt organization under Section 501(c)(3) of the Code, is licensed to operate a general acute care hospital, with campuses in Pleasanton, California and Livermore, California. The SHC-VC campus in Pleasanton, California is licensed for 167 general acute care beds (1 bed is currently in suspension), and the SHC-VC campus in Livermore, California is licensed for 75 beds in total, comprised of 35 general acute care, 14 acute psychiatric, and 26 skilled nursing beds (all 75 beds are currently in suspension due to the voluntary cessation of inpatient services, and exclusive provision of outpatient services, at the campus). SHC-VC provides health care services to the Tri-Valley region east of San Francisco, including the communities of Livermore, Pleasanton, Dublin and San Ramon. The Corporation is the sole member of SHC-VC. See "SERVICES, FACILITIES AND OPERATIONS—Market Strategy" herein.

The Stanford Blood Center, LLC ("SBC"). SBC is a limited liability company organized and licensed under the laws and jurisdiction of California. The Corporation is the sole member of SBC. SBC serves as a community blood center and provides blood products and testing services to hospitals, clinics, companies and other clients.

SUMIT Holding International, LLC ("SHI"). SHI is a limited liability company organized and licensed under the laws and jurisdiction of Delaware. The sole members of SHI are the Corporation and LPCH, which hold ownership interests of 80% and 20%, respectively. SHI is the sole owner of SUMIT Insurance Company Ltd. ("SUMIT") (described below) and Stanford University Medical Network Risk Authority, LLC, which provides risk management services to SHI, the owners of SHI and other affiliated and unaffiliated parties.

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 health care 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.

Professional Exchange Assurance Company ("PEAC"). PEAC, a reciprocal risk retention group domiciled in Hawaii, provides insurance coverage to UHA and Packard Children's Health Alliance ("PCHA"), a California nonprofit corporation that operates as a medical foundation in support of LPCH, and their respective affiliated parties. PCHA and UHA are the owners of PEAC.

Stanford Emanuel Radiation Oncology Center ("SEROC"). SEROC is a joint venture between the Corporation and Doctors Medical Center of Modesto, Inc. ("DMC"), a California corporation. SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. The Corporation's and DMC's membership interests in SEROC are 60% and 40%, respectively.

Stanford Health Care Advantage ("SHCA"). SHCA, formerly known as University HealthCare Advantage, is a California nonprofit public benefit corporation and a tax-exempt organization under Section 501(c)(3) of the Code and provides comprehensive health care coverage options to elderly and disabled individuals living in Santa Clara County. As a Medicare Advantage plan, SHCA promotes the health of the community by providing Medicare-eligible individuals with a broad range of health services. On December 6, 2019, SHCA, SHC, and Lumeris, which is an accountable care delivery innovation company, and a Lumeris affiliate entered into several agreements, including an acquisition agreement and a managed service agreement pursuant to which Lumeris will collaborate with SHC for the further development of SHCA in Northern California. Pursuant to such agreements, SHCA is expected to convert to a for-profit corporation, subject to receipt of requisite regulatory approvals.

ValleyCare Senior Housing, Inc. ("VCSH"). VCSH is a nonprofit public benefit corporation and a tax-exempt organization under Section 501(c)(3) of the Code of which SHC-VC is the sole member. In 2003, the City of Livermore granted land to VCSH for the purpose of leasing the land for third-party development of senior housing.

CareCounsel, LLC ("CareCounsel"). CareCounsel, a California limited liability company, provides employer-sponsored consumer education, advocacy and access to expert health care resources and information to for-profit, nonprofit and governmental employers across the United States.

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 members.

Stanford-StartX Fund, LLC ("StartX Fund"). StartX Fund, a California limited liability company, supports the continued experiential education of participants in a program that aims to accelerate the development of students, faculty and alumni of Stanford University identified as high-potential entrepreneurs by StartX, a California nonprofit public benefit corporation and a tax-exempt organization under Section 501(c)(3) of the Code. The Corporation's membership interest in StartX Fund is 33%.

Pleasanton Physician Affiliates II, LLC ("PPA II"). PPA II, a California limited liability company, owns and operates a medical office building in Pleasanton, California. SHC-VC holds a 39% membership interest in PPA II.

Corporate Partners Program

In 2011, the Corporation launched its Corporate Partners Program and recruited six leading Silicon Valley technology companies to join in providing philanthropic support for the replacement facilities identified in SHC's Master Plan (defined below). Apple, eBay, HP, Intel, Intuit and Oracle are founding members of the Corporate Partners Program. Their cumulative contributions are projected to provide as much as $250 million by 2022, of which management has identified, on an unaudited basis, $242 million to have been received as of December 31, 2020. The funds have been allocated to help build the New Stanford Hospital and other replacement

facilities and create a global model for patient-centered, technologically advanced health care. See "SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs" herein.

Governance

Board of Directors. Pursuant to the bylaws of the Corporation, the Board of Directors (the "Board") is comprised of six *ex officio* directors and between seven and twenty-six elected directors as determined by Stanford University. Currently, the Board consists of six *ex officio* directors and twenty-one directors elected by the Board of Trustees of Stanford University. Each director has one vote. Elected directors, except for the community physician director, who serves for a one-year term, may serve for three-year terms commencing on the appointment effective date and ending three years after the appointment effective date, or until a director's successor is duly elected and qualified. Each elected director may serve up to three consecutive terms, with the exception of a director who is a clinical department chair from the School of Medicine, who may not serve more than one term consecutively. A director who has served three consecutive terms is ineligible for reelection for one year thereafter; however, the term of a director who is the chair of the Board may be extended while serving as chair. The Board has three classes of directors that are equally sized to the extent possible, and holds staggered elections such that the terms of the directors in only one class expire each year. The current elected and *ex officio* directors, the year of each director's commencement of service on the Board, and each director's occupation are as follows:

Name	Service Commenced	Occupation
Susan Bechtel	2015	President of a nonprofit foundation
William Brody, M.D.	2015	Professor Emeritus
Mariann Byerwalter	2015	Chairman of an advisory group
Jeff Chambers, *ex officio*	2017	Senior Advisor at a private equity firm
Donna L. Dubinsky	2019	CEO of a neuroscience and artificial intelligence company
David Entwistle, *ex officio*	2016	President and CEO, SHC
Chandler Evans	2014	Community volunteer
Lori Goler	2013	Executive of a social media company
Fred Harman	2012	Managing director of a venture capital firm
Mary T. Hawn, M.D.	2020	Professor of Surgery and Chair of the Department of Surgery, SHC
Cecilia Herbert	2016	Trustee of an investment firm
Marc E. Jones	2020	Chairman and CEO of a communications firm
Paul A. King, *ex officio*	2019	President and CEO, LPCH
Lata Krishnan	2018	Technology entrepreneur and philanthropist
Chien Lee	2013	Private investor
Mark Leslie	2015	Retired entrepreneur
John Levin, Chair	2009	Chairman of a law firm, attorney
Randy Livingston, *ex officio*	2017	Stanford Medicine Liaison, Chief Financial Officer, Stanford University
Megan Mahoney, M.D. *ex officio*	2020	Chief of Medical Staff, SHC
Sanjay Mehrotra	2018	President and CEO of a technology firm
Linda Meier	2012	Community volunteer
Lloyd Minor, M.D., *ex officio*	2012	Dean, Stanford School of Medicine
Mindy B. Rogers	2018	Community volunteer
Jeff Rothschild	2021	Investor and entrepreneur
Robert Santos, MD	2021	Community physician; Internal Medicine, University Medical Partners, SHC
Kavitark Ram Shriram	2019	Founder of a venture capital firm
Y. Joseph Woo, M.D.	2019	Chair, Department of Cardiothoracic Surgery, Stanford University School of Medicine

Board Committees. The bylaws of the Corporation require an Audit, Compliance and Enterprise Risk Committee, a Quality and Service Committee and a Finance and Investment Committee 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, Major Gifts Development, Facilities, 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 such committees.

Management

The bylaws of the Corporation provide for the positions of President and 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.

David Entwistle, President and Chief Executive Officer. David Entwistle was appointed President and Chief Executive Officer of the Corporation effective July 2016. Prior to his appointment, Mr. Entwistle served as the Chief Executive Officer at University of Utah Health ("UUH"). In that role, Mr. Entwistle led UUH since 2007. Prior to joining UUH, Mr. Entwistle served as Senior Vice President and Chief Operating Officer, as well as Senior Vice President of Operations, for the University of Wisconsin Hospital and Clinics. Previously, he was Vice President of Professional Services and Joint Venture Operations at City of Hope National Medical Center, where he also served as President and Chief Executive Officer for Oncology Management Services. Mr. Entwistle serves on the boards of the American Hospital Association, the AAMC Council of Teaching Hospitals, the Accreditation Council for Graduate Medical Education and Vizient (formerly University HealthSystem Consortium). He earned a B.S. in Health Sciences from Brigham Young University and an M.H.A. in Health Services Administration from Arizona State University. He also was awarded a postgraduate administrative fellowship at the University of Texas MD Anderson Cancer Center.

Quinn McKenna, Chief Operating Officer. Quinn McKenna joined the Corporation in January 2017. Mr. McKenna has more than 25 years of leadership experience in academic medical centers, health systems and management consulting. Prior to joining the Corporation, he served as Chief Operating Officer and Executive Director of UUH. Mr. McKenna previously held Chief Operating Officer roles at the University of Washington in Seattle and at Salt Lake Regional Medical Center. He earned an M.H.A. from the University of Washington and a B.S. in Business Finance from Utah State University.

Linda Hoff, Chief Financial Officer. Linda Hoff became the Chief Financial Officer of the Corporation in July 2017. Prior to joining the Corporation, Ms. Hoff served as Senior Vice President and Chief Financial Officer of Legacy Health in Portland, Oregon for three years. Previously, she was Executive Vice President and Chief Financial Officer at Meriter Health Services in Madison, Wisconsin. She also served as President and Chief Executive Officer of Physicians Plus Insurance Corporation, with product lines including individual, small group, large group, Medicare supplement and Medicaid. Ms. Hoff earned an M.B.A. in Health Care Financial Management from the University of Wisconsin, where she also earned a B.S. in Economics. Ms. Hoff is a certified public accountant.

Eric Yablonka, Chief Information Officer. Eric Yablonka joined the Corporation in September 2017. Prior to his appointment, Mr. Yablonka served as Vice President and Chief Information Officer at University of Chicago Medicine for 16 years. Previously, Mr. Yablonka served as Vice President and Chief Information Officer at the Saint Raphael Healthcare System in New Haven, Connecticut for six years. He has also held IT leadership roles at The Joint Commission, Northwestern Memorial Hospital, University of Nebraska Medical Center and Beaumont Health. Mr. Yablonka earned an M.B.A. from the Advanced Management Program of the Eli Broad College of Business at Michigan State University and a B.S. in Business from the State University of New York – Buffalo State.

Dale Beatty, Chief Nursing Officer, Vice President Patient Care Services. Dale Beatty joined the Corporation in May 2017. Prior to his appointment, Mr. Beatty served as Chief Nursing Officer at the University of Illinois Hospital and Health Sciences System for three years. Previously, Mr. Beatty served as Executive Vice President and Chief Nursing Officer at Northwest Community Healthcare, as well as Vice President and Chief Nursing Officer at Sharp HealthCare. Mr. Beatty holds a B.S. in Nursing from Ohio Wesleyan University, an M.S. in Nursing Administration from DePaul University, and a Doctor of Nursing Practice from the University of Illinois.

Niraj Sehgal, Chief Medical Officer. Dr. Niraj Sehgal was named Chief Medical Officer of the Corporation in 2020. He also serves as a Professor of Medicine and Senior Associate Dean for Clinical Affairs in the School of Medicine. Dr. Niraj's clinical practice is focused on hospital medicine, while his academic career has been focused on studying and improving the quality and safety of care. Dr. Niraj earned his undergraduate degree in Biology and Business from Washington University and his medical degree from Rush University. He was a resident and chief resident at the Hospital before completing a postdoctoral fellowship at the Stanford Prevention Research Center, during which time he earned a Master of Public Health from UC Berkeley.

SERVICES, FACILITIES AND OPERATIONS

The Corporation operates the Hospital and Clinics on the campus of Stanford University, in neighboring communities, and in other communities in the Bay Area. In 2020, *U.S. News and World Report* ranked the Hospital and Clinics first in the San Jose Metro Area, fourth in California, and thirteenth in the nation. These rankings are based on SHC's performance in quality, patient safety, and reputation, among other key metrics.

Principal Patient Services

The Corporation provides comprehensive primary and secondary care to residents of the 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.

The Corporation concentrates its planning, development and marketing on five strategic clinical services (the "Destination Service Lines" or "DSL"): Cardiovascular Health, Cancer, Solid Organ Transplantation, 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 service lines are eligible for higher than average payments from third-party payers. Management planning, development and marketing efforts are directed toward sustaining the Hospital and Clinics as a leading center in the United States in each of these Destination Service Lines. Brief descriptions of the five Destination Service Lines follow.

Cardiovascular Health. 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 Destination Service Line.

Cancer. 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 Stanford South Bay Cancer Center, which opened in July 2015, has expanded patient access to the latest advances in cancer care, including access to clinical trials, and treatments in complementary practices.

Solid Organ Transplantation. 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 "Cardiovascular Health." 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 Stanford Medicine Outpatient Center, located in Redwood City (the "Outpatient Center"), 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 is 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. In January 2016, the Corporation opened the Stanford Neuroscience Health Center, which is adjacent to the Hospital campus and which brings together multidisciplinary teams of clinicians, integrated outpatient services, and advanced neuroscience technology in one patient-centered facility.

Other Clinical Services. The Corporation is, in the view of management, a recognized leader in providing a number of other services. These include: 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.

Master Plan and Additional Capital Needs

The Master Plan. As authorized by a development agreement governing local entitlements entered into in 2011 by the Corporation, LPCH and Stanford University with the City of Palo Alto, the Corporation developed a master plan for replacement and renewal of its facilities located on the campus of Stanford University (the "Master Plan"). The Master Plan provides for replacement and renewal of the Corporation's facilities in multiple phases over a thirty-year period. As part of the Master Plan, the Corporation has constructed the New Stanford Hospital, consisting 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. The New Stanford Hospital is the central feature of the Master Plan and was completed at a total cost of $2.2 billion. The goal of the New Stanford Hospital, endorsed by the Corporation's Board and embodied in the New Stanford Hospital design, was to create a place of healing that supports patient care, practitioner and staff productivity and environmental sustainability. The New Stanford Hospital was designed to create physical connections that foster inter-connectivity among the facility components, both expressing and enabling the translational medicine activities of the Corporation, the School of Medicine and LPCH. The New Stanford Hospital was also designed to support growth of the Destination Service Lines and other tertiary services and to meet the standards of the Seismic Safety Act (defined below). Additional new construction included approximately 429,000 square feet of clinics, medical offices, and administrative offices. Taken together, these new facilities replaced approximately 700,000 square feet of existing facilities, resulting in a net increase of approximately 824,000 square feet of facilities. Construction activities for the New Stanford Hospital were phased, and construction activities related to

additional replacement and renewal projects will be phased to permit inpatient and outpatient services to continue during each phase of the Master Plan, described further below.

Management estimates total expenditures for additional on-campus capital improvements related to the Master Plan and various off-campus capital projects and strategic initiatives to be approximately $1.6 billion through fiscal year 2023. On-campus projects include a renovation and remodel of 300 Pasteur, the original hospital building, which will primarily provide cancer care for SHC patients, and a relocation of certain clinical services from Stanford University's campus to buildings in Redwood City that were purchased from Stanford University. Off-campus projects may include the expansion of existing facilities and acquisition of new facilities, all of which are subject to approval by the Board. Capital plan expenditures remain subject to modification by management and to the review and approval of the Board in light of the priorities, debt capacity and the strategic planning of the Corporation and the School of Medicine.

Seismic Safety Act Compliance. 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 (the "State") as non-compliant must be retrofitted, replaced or removed from acute care service by applicable deadlines, subject to extension if approved by the California Office of Statewide Health Planning and Development ("OSHPD"). The State seismic safety requirements address both structural frame and non-structural performance. OSHPD has classified a substantial portion of the Hospital as compliant with seismic safety structural frame standards until 2030 and beyond. Other patient care activities are located in buildings that are structurally compliant only until 2030. None of these buildings has ever housed inpatients. Beginning in 2020, the Corporation upgraded its facilities by removing from acute care service several non-inpatient buildings and conducting extensive renovations to retrofit all necessary non-structural systems, such as utility and other connections. The Corporation completed the physical work to meet a required 2020 deadline and obtained OSHPD sign off. The formal reclassification to re-designate these buildings to non-hospital status is expected in 2021.

The School of Medicine

The School of Medicine was established in 1908 as a part of Stanford University and today is one of the preeminent schools of medicine in the United States. In 2020, *U.S. News and World Report* ranked the School of Medicine fourth nationally among research-oriented medical schools. The School of Medicine offers M.D., M.A. and Ph.D. programs in various areas of biosciences, internship and residency programs at the Hospital and LPCH Hospital, and a Medical Scientist Program in which students earn both an M.D. and a 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 Corporation provides the settings where these clinical applications are delivered to patients.

Joint Strategic Initiatives. The School of Medicine, the Corporation, and LPCH have jointly developed an integrated strategic plan and together are continuing to implement initiatives based on the plan. The Integrated Strategic Plan ("ISP") serves as a unifying platform to ensure progress on key strategic efforts across the three entities, which collaborate on strategies addressing areas of clinical excellence, patient satisfaction and business operations, and on a variety of initiatives in translational medicine. The overarching principles of the ISP are:

Value Focused

- Embrace a value-based culture.
- Provide a highly personalized patient experience.
- Ensure a seamless Stanford Medicine experience.

Digitally Driven

- Amplify the impact of Stanford Medicine innovation globally.
- Deliver human-centered, high-tech, high-touch care and revolutionize biomedical discovery.
- Lead in population health and data science.

Uniquely Stanford

- Accelerate discovery in and knowledge of human biology.
- Advance fundamental human knowledge, translational medicine, and global health.
- Ensure preeminence across all mission areas.

Collaborations include:

- A Council of Clinical Chairs, co-chaired by the Senior Associate Dean for Clinical Affairs of the School of Medicine and the President and Chief Executive Officer of the Corporation. The Council includes the chairs of the 18 clinical science departments of the School of Medicine as well as key members of management 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. To that end, the Corporation and the School of Medicine have recently integrated their IT organizations.

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

- Efforts to protect the privacy and security of patient health information.

- Clinical services and outreach clinics with select community hospitals.

The School of Medicine has undertaken to improve the position of SHC in the Destination Service Lines and other tertiary and quaternary services. The School of Medicine has created five institutes that align research, education and clinical efforts, including the Stanford Cancer Institute, the Stanford Institute for Stem Cell Biology and Regenerative Medicine, the Stanford Cardiovascular Institute, the Stanford Neuroscience Institute, and the Stanford Institute for Immunity, Transplantation and Infection.

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

Purchased Services from the School of Medicine. Services provided at the Hospital 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 of the Corporation, set forth in the audited consolidated financial statements included as Appendix B to this Offering Memorandum, and were $875 million for the year ended August 31, 2020.

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, and certain administrative services, which include legal and internal audit. The Corporation's cost of such services for the fiscal year ended August 31, 2020 was $132 million and is reflected in various expense categories in the consolidated statements 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 $78 million for the fiscal year ended August 31, 2020 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 $5 million for the fiscal year ended August 31, 2020 and are reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries. For the fiscal year ended August 31, 2020, the Corporation transferred $98 million to Stanford University to support the academic mission of the School of Medicine and its initiatives, and to generally support the academic community and physical plant of Stanford University pursuant to its agreements with Stanford University. 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, compliance and general services. The costs for these shared services are allocated between the Corporation and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $38 million for the fiscal year ended August 31, 2020 and 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 $38 million for the year ended August 31, 2020 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, certain billings and collections services, building maintenance and utilities. Reimbursement of these services totaled $41 million for the year ended August 31, 2020 and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Transactions with UHA. The Corporation sponsors UHA's operating divisions comprised of multi-specialty clinics operated by UHA in 70 locations in San Mateo, Santa Clara, Contra Costa, and Alameda counties, and in connection with such sponsorship, the Corporation funds UHA's general overhead costs and to supplement the operating division's revenues if necessary to fund its operating and capital costs. The sponsorship continues from year to year at SHC's discretion. In fiscal year 2020, the Corporation provided $96 million to UHA in funding for operations and capital costs. Management of the Corporation estimates that transfers of such sponsorship amounts will not be material to the financial condition of the Corporation. See "SERVICES, FACILITIES AND OPERATIONS—Community Physician Network" 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 Offering Memorandum.

Bed Complement

The licensed and operational bed complement of the Corporation was allocated among the following services:

TABLE 1
Bed Complement by Service as of March 31, 2021

Service	Number of Beds	
	Licensed	Operational
General Acute Care	454	453
Intensive Care	121	109
Psychiatric	30	30
Totals	605	592

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 (the "Local Market"). This two-county area historically has been the predominant source of inpatient volume for the Hospital, accounting for approximately 50% 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 Market

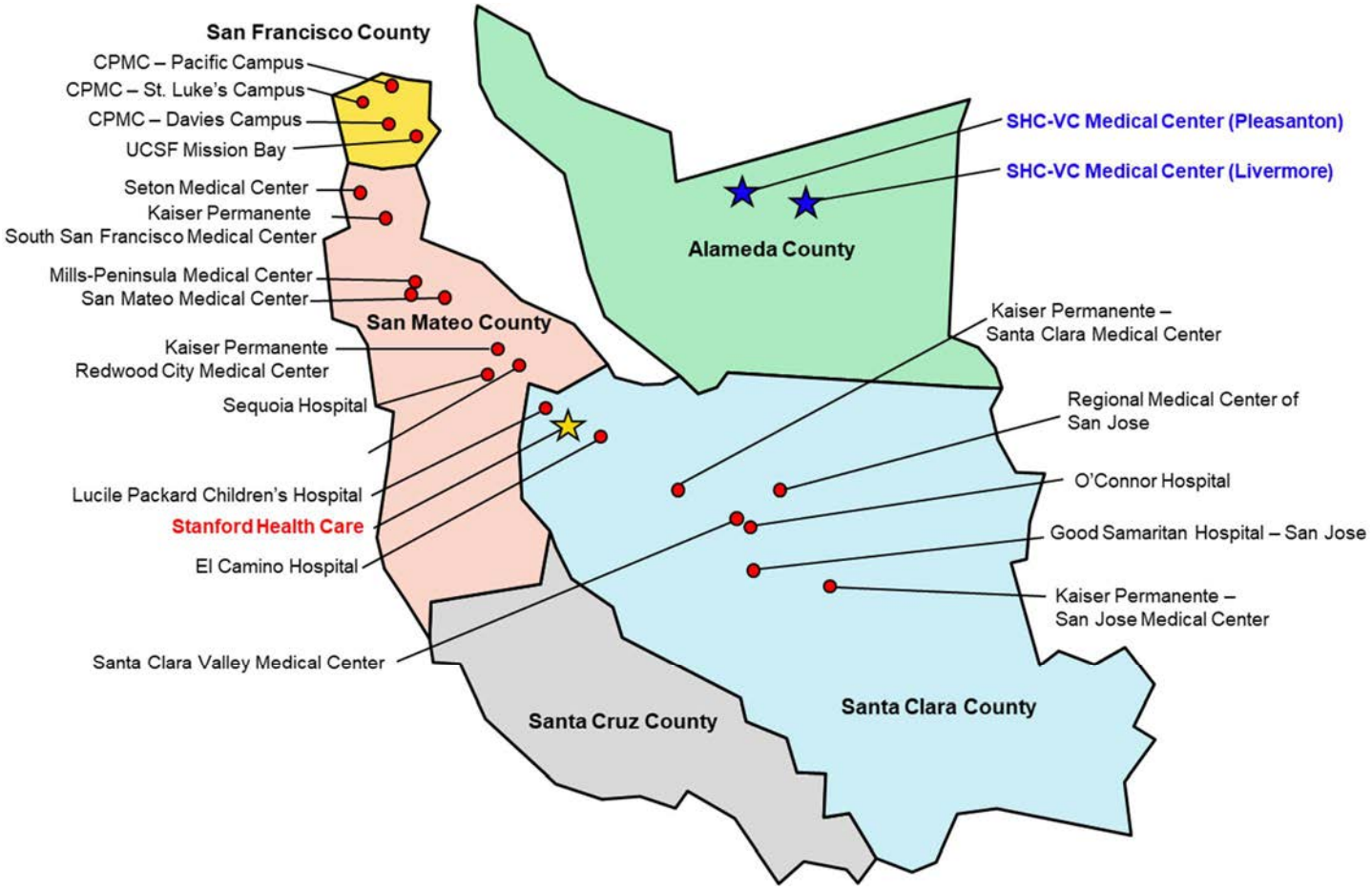
- East Bay—Alameda, Contra Costa and Solano counties
- Central Coast—Monterey, San Benito, San Luis Obispo and Santa Cruz counties
- Central Valley—Madera, Fresno, Kings, Merced, Sacramento, San Joaquin, Stanislaus and Tulare counties
- North Bay—Sonoma, Marin, Napa and San Francisco counties

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 a portion of the Regional Market area. The map shows the approximate locations of the hospitals of SHC and its affiliates as well as those of its competitors listed in Table 3.



The table below provides, for the most recent years available, 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 median household income.

TABLE 2
Clinics Outpatient Volume, Charges, and Select Demographic Information

	Fiscal Year ended August 31, 2020		Calendar Year				
Local and Regional Markets	**Percentage of Outpatient Volume**	**Percentage of Charges**	**Actual Population 2020**	**Projected Population 2025**	**Projected Percentage Population Change 2020 - 2025**	**Median Age 2019**	**Median Household Income 2019**
Local Market	63.9%	60.5%	2,745,586	2,816,865	2.6%	37.8	$124,359
Regional Market:							
East Bay	14.4%	11.6%	3,290,240	3,418,231	3.9%	38.0	$99,969
Central Coast	6.7%	8.6%	1,065,615	1,085,650	1.9%	36.6	$77,589
Central Valley	6.6%	8.7%	5,033,426	5,274,801	4.8%	33.7	$62,906
North Bay	2.9%	3.0%	1,789,400	1,810,472	1.2%	40.6	$102,673
Outside Local and Regional Markets	5.6%	7.5%	–	–	–	–	–
Totals	100.0%	100.0%					

Source: Advisory Board, California Department of Finance; Corporation Records.

The following table provides the discharge data for calendar years 2017, 2018 and 2019 (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 3 also provides case mix index data for each hospital's 2018 and 2019 fiscal years (the most recent years 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 3
Local Market and Selected Regional Market Competitors
Discharges and Case Mix Index Data
(All patients originating from Local Market counties ages 18+)

	Calendar Year 2017		Calendar Year 2018		Calendar Year 2019			
	Discharges	% of total	Discharges	% of total	Discharges	% of total	FY2018 Case Mix Index	FY2019 Case Mix Index
The Hospital	13,018	8.0%	13,101	8.4%	13,590	8.7%	2.47	2.54
California Pacific Medical Center ("CPMC") - Pacific Campus[1]	1,171	0.7	1,146	0.7	179	0.1	1.58	1.57
CPMC – Van Ness Campus[1]	0	0.0	0	0.0	899	0.6	0.00	1.63
CPMC – St. Luke's Campus[1]	423	0.3	250	0.2	0	0.0	1.25	0.00
CPMC – Mission Bernal[1]	0	0.0	165	0.1	579	0.4	1.34	1.37
CPMC – Davies Cmapus[1]	388	0.2	370	0.2	367	0.2	1.82	1.76
El Camino Hospital	17,350	10.6	16,720	10.7	17,630	11.2	1.35	1.34
Good Samaritan Hospital - San Jose	13,619	8.3	14,231	9.1	14,163	9.0	1.40	1.43
Kaiser Permanente - Redwood City	6,287	3.9	5,941	3.8	6,084	3.9	1.49	1.50
Kaiser Permanente - San Jose	9,996	6.1	9,990	6.4	10,271	6.5	1.34	1.37
Kaiser Permanente - Santa Clara	15,375	9.4	14,203	9.1	14,532	9.3	1.54	1.55
Kaiser Permanente - South SF	4,310	2.6	3,955	2.5	3,788	2.4	1.55	1.58
Mills-Peninsula Medical Center	10,365	6.4	10,492	6.7	10,350	6.6	1.58	1.57
O'Connor Hospital	8,627	5.3	7,385	4.7	6,666	4.2	1.39	1.51
Regional Medical Center of San Jose	13,208	8.1	12,910	8.2	13,169	8.4	1.63	1.56
San Mateo Medical Center	2,683	1.6	2,300	1.5	2,232	1.4	1.31	1.34
Santa Clara Valley Medical Center	18,408	11.3	17,001	10.8	16,816	10.7	1.37	1.40
Sequoia Hospital	4,410	2.7	4,486	2.9	4,616	2.9	1.56	1.58
Seton Medical Center	4,081	2.5	3,860	2.5	3,850	2.5	1.80	1.73
UCSF Medical Center[1]	2,165	1.3	2,117	1.3	2,269	1.4	2.15	2.19
All Other Hospitals[2]	18,054	11.1	17,046	10.9	16,785	10.7		
Total Discharges	163,127		156,884		156,990			

(1) Although not within the Local Market boundaries, management identifies as a competitor comparable to others within the Local Market. During the time period represented, CPMC transitioned volume from its Pacific Campus to Van Ness Campus in 2019 and from its St. Luke's Campus to Mission Bernal Campus in 2018.

(2) The category "All Other Hospitals" includes hospitals utilized by San Mateo and Santa Clara county patients. Discharge data include all discharges for 18+ patients originating from Local Market counties.

Source: OSHPD; Corporation Records.

As indicated by the Case Mix Index data in Table 3, the Corporation has a higher Case Mix Index than each hospital identified as a competitor in the Local Market; such competitor hospitals tend to receive lower complexity and intensity cases, as reflected in the relatively lower Case Mix Index for those hospitals. While providing a significant amount of care at this level, the Corporation also 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 from other local hospitals. In large part, the most acute and difficult cases come to the Hospital because the Hospital and UCSF Medical Center are the only two hospitals in the Bay Area to offer many of the treatments and procedures necessary for these patients. The strategic decision to concentrate on the five Destination Service Lines reflects management's opinion that higher acuity services will produce higher operating margins than lower acuity services.

Market Strategy

The Corporation's strategic plan calls for near-term growth in its Destination Service Lines as well as other services in which the Corporation has demonstrated distinction. The Corporation focuses on aligning these specific services with relevant markets, based on an evaluation of various factors, including the type of services already available in such markets. This strategy is intended to promote growth in higher acuity inpatient and outpatient procedures. A principal focus of the strategic plan is the five DSLs. The Corporation's goal is to grow inpatient and outpatient volume and expand national and international distinction in these services. The growth strategy is based on leveraging the Corporation's clinical innovations in these services. See "SERVICES, FACILITIES AND OPERATIONS—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.

From time to time the Corporation evaluates and pursues potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process, which includes strengthening the Corporation's presence in Local and Regional Markets. Because of the integration occurring throughout the health care industry, the Corporation may consider such transactions if there is a perceived strategic or operational benefit for the Corporation.

In management's view, the Corporation's affiliation with SHC-VC plays a key role in its market positioning. The affiliation with SHC-VC, which began in 2015, has extended the Corporation's network of health care providers, clinical outreach, and community services into the East Bay portion of the Corporation's Regional Market, which includes the Tri-Valley region of Pleasanton, Livermore and Dublin. The affiliation has supported the Corporation's academic endeavors in population health sciences and clinical research and has provided an outreach location for academic service lines.

The Corporation's strategic plan also 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, 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 Destination Service Lines.

- Focusing growth strategies on new services and more advanced treatments and methodologies.

Current actions being taken to implement these strategies include:

- In the Cardiovascular Health DSL, concentrating on more complex and difficult revascularization procedures, such as coronary artery bypass graft and percutaneous transluminal coronary angioplasty procedures.

- In the Cancer DSL, emphasizing the distinctive treatments provided by the Corporation, including bone marrow transplants, radiation therapy, and minimally invasive surgery techniques.

- In the Solid Organ Transplant DSL, emphasizing living donor approaches in liver transplantation and new immuno-suppressant therapies, as organ supply permits.

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

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

Community Physician Network

In 2011, the Corporation and Stanford University, acting on behalf of its School of Medicine, formed UHA to operate community-based clinics staffed by a network of community-based physicians, complementing the faculty practice clinics operated by the Corporation 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 August 2020, consisted of over 70 clinic sites located in San Mateo, Santa Clara, Contra Costa 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. In the fiscal year ended August 31, 2020, UHA recorded 769,190 outpatient visits. The Corporation provides financial support for the operating divisions of UHA. See "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and UHA" above. The Corporation may provide additional financial support to UHA in connection with expansion of the network of community-based clinics operated by UHA.

Utilization

A summary of historical utilization data for the Corporation for the three fiscal years ended August 31, 2018, 2019 and 2020 and for the six-month periods ended February 28, 2021 and February 29, 2020 is presented in the following table.

TABLE 4
Historical Utilization

	Fiscal Years Ended August 31,			For the Six Months ended February 29/28,	
	2018	2019	2020	2020	2021
Discharges					
Acute	26,067	26,371	26,224	13, 687	13,448
Behavioral Health	837	816	722	447	247
Total	26,904	27,187	26,946	14,134	13,695
Patient Days					
Acute	144,224	147,372	154,344	79,413	87,232
Behavioral Health	9,321	8,575	7,870	4,346	3,406
Subtotal	153,545	155,947	162,214	83,759	90,638
Short Stay Outpatient	16,881	16,181	13,664	7,558	6,582
Total	170,426	172,128	175,878	91,317	97,220
Average Daily Census					
Acute	395.1	403.8	421.7	436.3	481.9
Behavioral Health	25.5	23.5	21.5	23.9	18.8
Total	420.7	427.3	443.2	460.2	500.8
Average Length of Stay					
Acute	5.5	5.6	5.9	5.8	6.5
Behavioral Health	11.1	10.5	10.9	9.7	13.8
Average	5.71	5.74	6.02	5.93	6.62
Case Mix Index	2.45	2.44	2.51	2.47	2.79
Emergency Room Visits[(1)]	76,115	78,650	76,688	41,433	45,597
Short Stay Outpatient Procedures	44,018	45,279	41,914	23,624	22,357
Other Outpatient Visits[(2)]	805,401	864,567	893,386	467,846	670,717
Surgeries					
Inpatient	12,942	13,211	12,210	6,801	5,981
Outpatient[(2)]	24,032	24,770	22,933	12,533	12,229
Totals	36,974	37,981	35,143	19,334	18,210

(1) Includes emergency room visits of admitted inpatients.

(2) Excludes outpatient emergency room visits.

Source: Corporation Records.

SUMMARY OF FINANCIAL INFORMATION

All financial information presented in this section, "SUMMARY OF FINANCIAL INFORMATION," is presented on a consolidated basis. The following consolidated statements of operations and changes in net assets of the Corporation for the fiscal years ended August 31, 2018, 2019 and 2020 have been derived by the Corporation's management from the audited consolidated financial statements of the Corporation. All financial information presented in this section should be read in conjunction with the consolidated financial statements and related notes thereto for the fiscal years ended August 31, 2019 and 2020, included as Appendix B to this Offering Memorandum.

The information for the six-month periods ended February 29, 2020 and February 28, 2021 has been derived by management from consolidated 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 included in Appendix B. The results of operations for the six-month period ended February 28, 2021 are not necessarily indicative of the results of operations to be expected for the entire fiscal year ending August 31, 2021.

The results of all of the Corporation's related entities, consisting of UHA, SHC-VC, SBC, SHI, SEROC, CareCounsel, PEAC, and SHCA (collectively, the "Related Entities") are consolidated with those of the Corporation for all periods. The earnings of PET-CT are included in other revenue in the consolidated statements of operations and changes in net assets for all periods. The earnings of StartX Fund are included in earnings on equity method investments in the consolidated statements of operations and changes in net assets of the Corporation beginning with the fiscal year ended August 31, 2019.

Management calculates the Related Entities' contribution to the Corporation's total consolidated operating revenues as 15.1% for the fiscal year ended August 31, 2020, which is derived from the sum of the operating revenues of each of the Related Entities in proportion to the Corporation's total consolidated operating revenues. Management calculates the Related Entities' contributions to the Corporation's total assets, net assets and excess of revenues over expenses as 8.6%, 7.6% and (454.5%), respectively, with the excess of revenues over expenses attributable to COVID-19 pandemic effects on the Related Entities. The Corporation is currently the only member of the Obligated Group. None of the Related Entities is a Member of the Obligated Group or is otherwise obligated with respect to the Bonds. (For additional information concerning the Related Entities and other entities to which the Corporation is related or in which it has interests included in the consolidated financial statements, see Note 1 and Note 2 of the audited consolidated financial statements of the Corporation included as Appendix B to this Offering Memorandum.)

TABLE 5
Stanford Health Care
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Fiscal Years Ended August 31,			For the Six Months Ended	
	2018	2019	2020	February 29, 2020	February 28, 2021
Operating revenues and other support:					
Net patient service revenue[1]	$ 4,677,929	$ 5,113,052	$ 5,140,938	$ 2,700,541	$ 2,853,411
Premium revenue	92,654	106,130	116,971	57,061	58,771
Grants – COVID-19	–	–	124,551	–	9,736
Other revenue	135,597	157,757	174,293	78,733	85,372
Net assets released from restrictions used for operations	4,366	13,063	10,823	3,660	2,940
Total operating revenues and other support	4,910,546	5,390,002	5,567,576	2,839,995	3,010,230
Operating expenses:					
Salaries and benefits	2,091,260	2,302,399	2,548,259	1,262,920	1,356,155
Professional services	46,146	41,300	38,463	16,981	18,967
Supplies	667,379	727,136	820,403	402,912	449,304
Purchased services	1,216,992	1,350,708	1,458,959	731,616	720,200
Depreciation and amortization	176,742	190,283	257,725	125,699	132,315
Interest	35,434	42,431	68,019	29,644	37,889
Other	477,661	483,258	460,483	232,246	216,312
Expense recoveries from related parties	(121,727)	(130,800)	(105,779)	(69,252)	(26,637)
Total operating expenses	4,589,887	5,006,715	5,546,532	2,732,766	2,904,505
Income from operations	**320,659**	**383,287**	**21,044**	**107,229**	**105,725**
Interest and investment income	31,122	42,904	43,973	24,624	22,211
Earnings on equity method investments	7,048	8,315	19,592	11,186	31,137
Change in value of University managed pools	110,984	76,748	161,720	49,240	272,723
Swap interest and change in value of swap agreements	48,043	(146,794)	(53,722)	(31,905)	76,259
Loss on extinguishment of debt	(47,613)	–	–	–	–
Other components of net periodic benefit costs	–	–	(2,070)	–	(980)
Excess of revenues over expenses	**470,243**	**364,460**	**190,537**	**160,374**	**507,075**
Other changes in net assets without donor restrictions:[2]					
Transfers to Stanford University	(98,183)	(120,090)	(98,367)	(20,655)	(18,446)
Transfers from Lucile Salter Packard Children's Hospital	2,068	–	–	–	99
Change in net unrealized gains on investments	9,438	22,825	(1,249)	16	(1,170)
Net assets released from restrictions used for:					
Purchase of property and equipment	309	977	3,248	253	–
Purchase of property and equipment – New Stanford Hospital	–	–	555,219	551,207	10,205
Change in pension and postretirement liability	28,277	(26,422)	1,042	–	–
Noncontrolling capital contribution (distribution)	(1,200)	–	(2,400)	(2,400)	–
Increase in net assets without donor restrictions	410,952	241,750	648,030	688,795	497,763
Changes in net assets with donor restrictions:[2]					
Transfer from (to) Stanford University	2,177	(316)	162	111	651
Contributions and other	44,983	31,079	22,084	10,151	24,841
Investment income	712	815	929	337	421
Gains on University managed pools	2,467	2,176	2,885	806	3,993
Net assets released from restrictions used for:					
Operations	(4,366)	(13,063)	(10,823)	(3,660)	(2,940)
Purchase of property and equipment	(309)	(977)	(3,248)	(253)	–
Purchase of property and equipment – New Stanford Hospital	–	–	(555,219)	(551,207)	(10,205)
Increase (decrease) in net assets with donor restrictions	45,664	19,714	(543,230)	(543,715)	16,761
Increase in net assets	**456,616**	**261,464**	**104,800**	**145,080**	**514,524**
Net assets, beginning of year	3,504,568	3,961,184	4,222,648	4,222,648	4,327,448
Net assets, end of year	**$ 3,961,184**	**$ 4,222,648**	**$ 4,327,448**	**$ 4,367,728**	**$ 4,841,972**

[1] Accounting Standards Update 2014-09 was adopted on a modified retrospective basis as of September 1, 2018 and is reflected in the FY2019. For further information regarding recent pronouncements of accounting policies effective for the years summarized above, see Appendix B, Note 2.

[2] ASU 2016-14 was adopted in FY2019, changing net assets group from three to two.

Management's Discussion and Analysis of Recent Financial Performance

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, asset retirement obligations, amounts due to third-party payers, 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 Offering Memorandum.

Additionally, in February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases, which requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The Corporation adopted the ASU as of September 1, 2019, electing to apply the guidance on a modified retrospective basis, which resulted in the recognition of operating lease right-of-use assets and operating lease liabilities of $318 million and $338 million, respectively, as of September 1, 2019.

Recent Initiatives and Programs. SHC is in the process of renovating 300 Pasteur ("300P Renewal"), including updating public spaces, the bridge lobby and the entry plaza, creating additional garden areas, and making seismic and infrastructure improvements. As of August 31, 2020, approximately $69 million, which was primarily for design and construction, was recorded to construction in progress. The estimated cost of the 300P Renewal is $1.2 billion. Recently, SHC and Sutter Health formalized a joint venture to expand access to coordinated cancer services for patients and their families in the East Bay. A new cancer center is proposed to be located on Sutter Health-owned land at the Alta Bates Summit Medical Center campus in Oakland. The new cancer center would serve as a central hub for East Bay patients, providing cancer care that would carry patients from early screening through treatment and survival. It is estimated that the center will be completed in 2024 and will include imaging, lab, infusion and radiation therapy services, and will house physician offices and an ambulatory surgery center. See "SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs" herein.

Coronavirus Disease ("COVID-19") Pandemic. In response to the economic impact of the COVID-19 pandemic, Congress enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") which was signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for businesses and individuals. Under certain provisions in the CARES Act, SHC recognized benefits totaling $10 million in its consolidated statement of operations for the period ended February 28, 2021. The $10 million benefit is comprised of $1 million in relief funds and $9 million in refunded employee retention tax credits. As of February 28, 2021, SHC also deferred payment of $74 million for the employer portion of the Social Security

payroll tax as allowed by the CARES Act. Employee retention tax credits are claimed against the employer portion of the Social Security tax for the applicable quarter, with the excess refunded. In total, $18 million of employee retention tax credits were applied to offset the deferred employer share of Social Security payroll tax. The impact of the payroll tax deferral and employee retention tax credit is a net liability of $56 million as of February 28, 2021. Fifty percent of the net deferred tax ($28 million) must be paid by December 31, 2021 with the remainder to be paid by December 31, 2022.

SHC recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available at August 31, 2020. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes. Subsequent to SHC's fiscal year end, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements expanded relief fund eligibility and updated reporting requirements. This constitutes a change from the terms and conditions previously communicated in March 2020, which indicated that "any reasonable method" could be utilized to calculate lost revenues attributable to the COVID-19 pandemic. Due to these new reporting requirements and the ongoing changes in the compliance requirements, there is at least a reasonable possibility that amounts recorded under CARES Act provider relief funds by SHC may change in future periods.

Under the CARES Act, SHC also received $397 million in advanced payments from CMS in fiscal year 2020 which is on the accompanying consolidated balance sheet as of August 31, 2020. CMS has indicated that, to the extent that any advanced payments have not been repaid one year following receipt of such advanced payments, it will begin recouping these advance payments against future Medicare claims for services that are provided during the recoupment period.

Under certain provisions in the CARES Act, SHC recognized relief funds totaling $393 million in its consolidated balance sheets as of February 28, 2021. However, SHC has not yet accepted the terms and conditions of these relief funds.

There are other government funding and relief sources, in addition to other components of the CARES Act not mentioned, that SHC continues to assess for eligibility. The possible impact of these funding and relief sources is not reflected in the financial performance through February 28, 2021.

Financial Performance Comparison for the Six-Month Periods Ended February 28, 2021 and February 29, 2020. Income generated from operations before depreciation and interest expense was $276 million for the six-month period ended February 28, 2021, as compared to $263 million for the six-month period ended February 29, 2020. The Corporation reported income from operations before investment income of $106 million for the six-month period ended February 28, 2021, compared to $107 million for the six-month period ended February 29, 2020. Net patient service revenue, including the payments under UHA's capitated agreements with health maintenance organizations (the "Premium Revenue"), included in income from operations increased by 5.6%, period over period, or $155 million, while total operating expenses increased by 6.3%, or $172 million, period over period. A portion of the revenues and expenses is related to the Hospital Fee Program (as defined herein), which is a temporary governmental

program. Excluding revenues and expenses related to this program, net patient service revenue increased 6.0%, or $159 million, while total operating expenses increased by 6.6%, or $178 million, period over period. Net patient service revenue increased mainly due to higher volume, including patient days, which increased from 102,391 for the six-month period ended February 29, 2020 to 104,062 for the six-month period ended February 28, 2021. Outpatient volume also continued to increase, and outpatient clinic visits increased by 5%. The related increase in operating expenses is primarily due to COVID-19 pandemic-related expenses and increased salaries to remain competitive in the health care market.

Interest and investment income and the increase in value of SHC's share of the Stanford University managed investment pools (the "Managed Investment Pools") accounted for a gain of $273 million for the period ended February 28, 2021 compared to a gain of $49 million for the period ended February 29, 2020. The fair value of the interest rate swaps increased by $76 million compared to a decrease of $32 million for the periods ended February 28, 2021 and 2020, respectively. As a result, the Corporation's excess of revenues over expenses for the six months ended February 28, 2021 was $507 million, an increase of $347 million over the comparable period in the preceding year. In addition, the Corporation's net assets increased by $515 million and $145 million for the periods ended February 28, 2021 and 2020, respectively.

Three Year Historical Performance Overview. For the three years ended August 31, 2020, 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. Despite the lower patient revenues due to the COVID-19 pandemic, improved financial market conditions contributed to the Corporation's strengthened financial position. Cumulative operating revenues for the three years ended August 31, 2020 were $15.9 billion, of which net patient service revenue accounted for 94%. Cumulative income from operations for the three years ended August 31, 2020 was $725 million. Cumulative interest and investment income and change in the value of SHC's share of the Managed Investment Pools for the three years ended August 31, 2020 was $467 million. Cumulative increase in net assets for the three years ended August 31, 2020 was $823 million. Cumulative capital expenditures for the three years ended August 31, 2020 were approximately $1.3 billion.

Financial Performance in Fiscal Year 2020 Compared to Fiscal Year 2019. The Corporation's net assets increased by $105 million, from $4.2 billion as of August 31, 2019, to $4.3 billion as of August 31, 2020. In fiscal year 2020, the Corporation generated a $191 million excess of revenues over expenses compared to $364 million in fiscal year 2019. Interest and investment income and change in value of SHC's share of Managed Investment Pools increased by $86 million in fiscal year 2020, and the Corporation had a gain of $206 million due to positive returns on these investments.

Net patient service revenue, including Premium Revenue, increased by 0.7%, from $5.2 billion in fiscal year 2019, to $5.3 billion in fiscal year 2020. Of the $5.3 billion, inpatient revenues represented 38.3%, a decrease of 0.9% on inpatient revenues as compared to fiscal year 2019. Outpatient revenues increased by 1.8%, accounting for the remaining 61.7% of the $5.3 billion. Operating expenses increased 10.8% in fiscal year 2020 to $5.5 billion, from $5.0 billion in fiscal year 2019. Salaries and benefits increased 10.7% to $2.5 billion due to expanded headcount to

support patient volumes, anticipation of caring for potential COVID-19 patients, and annual salary increases necessary to maintain SHC's position in the competitive market for health care professionals. All other operating expenses were up 10.9%, from $2.7 billion in fiscal year 2019, to $3.0 billion in fiscal year 2020 largely as a result of costs related to the increase in patient activity, payments to Stanford University under the PSA, COVID-19 pandemic-related expenses, and inflation increases. Excluding revenues and expenses from the Hospital Fee Program described below under the caption "Hospital Fee Program" and the New Stanford Hospital activation costs, net patient service revenue increased 1.1%, or $55 million, and expenses increased 11.1%, or $543 million, in fiscal year 2020 compared to fiscal year 2019.

Financial Performance in Fiscal Year 2019 Compared to Fiscal Year 2018. The Corporation's net assets increased by $261 million, from $4.0 billion as of August 31, 2018, to $4.2 billion as of August 31, 2019. In fiscal year 2019, the Corporation generated a $364 million excess of revenues over expenses compared to $470 million in fiscal year 2018. Although interest and investment income and change in value of SHC's share of Managed Investment Pools decreased by $22 million in fiscal year 2019, the Corporation still had a gain of $120 million due to positive returns on these investments.

Net patient service revenue, including the Premium Revenue, increased by 9.4%, from $4.8 billion in fiscal year 2018, to $5.2 billion in fiscal year 2019. Of the $5.2 billion, inpatient revenues represented 39% and grew by 6.6% on continuing increases in patient volume. Outpatient revenues increased by 11.3%, accounting for the remaining 61% of the $5.2 billion. Operating expenses increased 9.1% in fiscal year 2019 to $5.0 billion, from $4.6 billion in fiscal year 2018. Salaries and benefits increased 10.1% to $2.3 billion 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 8.2%, from $2.5 billion in fiscal year 2018, to $2.7 billion in fiscal year 2019 largely as a result of costs related to the increase in patient activity, payments to Stanford University under a funds flow agreement for clinical services provided by the School of Medicine, New Stanford Hospital activation costs, and inflation increases. Excluding revenues and expenses from the Hospital Fee Program described below under the caption "Hospital Fee Program" and the New Stanford Hospital activation costs, net patient service revenue increased 9.4%, or $431 million, and expenses increased 7.9%, or $356 million, in fiscal year 2019 compared to fiscal year 2018.

Financial Performance in Fiscal Year 2018 Compared to Fiscal Year 2017. The Corporation's net assets increased by $457 million, from $3.5 billion as of August 31, 2017, to $4.0 billion as of August 31, 2018. In fiscal year 2018, the Corporation generated a $470 million excess of revenues over expenses compared to $485 million in fiscal year 2017. Although interest and investment income and change in value of SHC's share of Managed Investment Pools decreased by $18 million in fiscal year 2018, the Corporation still had a gain of $142 million due to positive returns on these investments.

Net patient service revenue (including Premium Revenue) increased by 10.6%, from $4.3 billion in fiscal year 2017, to $4.8 billion in fiscal year 2018. Of the $4.8 billion, inpatient revenues represented 40% and grew by 6.4% on continuing increases in patient volume. Outpatient revenues increased by 13.5%, accounting for the remaining 60% of the $4.8 billion. Operating expenses increased 8.8% in fiscal year 2018 to $4.6 billion, from $4.2 billion in fiscal

year 2017. Salaries and benefits increased 5.3%, from $2.0 billion in fiscal year 2017, to $2.1 billion in fiscal year 2018 in response to growth in patient volumes. All other operating expenses combined increased 11.8%, from $2.2 billion in fiscal year 2017 to $2.5 billion in fiscal year 2018, largely as a result of costs related to increased patient activity, payments to Stanford University under the PSA for clinical services provided by the School of Medicine, and inflation increases. Excluding revenues and expenses from the Hospital Fee Program, net patient service revenue less provision for doubtful accounts increased 9.5%, or $399 million, while operating expenses increased 8.0%, or $334 million, in fiscal year 2018 compared to fiscal year 2017.

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 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 such as interest rate levels can also have a significant impact on pension expense and contributions. Taken together, these factors can have a material impact on both the results of operations and liquidity. As of August 31, 2020, the SPP had a net benefit liability recognized in the amount of $9 million.

The Corporation contributed $1.9 million in July 2020 to the SPP to eliminate Pension Benefit Guaranty Corporation variable rate premium fees. The Corporation's funded status with respect to the SPP is estimated at 96% as of August 31, 2020. The funded status assumes a discount rate of 2.33%. The Corporation's investment policy is dictated by a glide path that increases the plan's fixed income allocation as the plan's funded status increases. The Corporation's investment policy for the SPP assets targets a portfolio mix of 30% equity and 70% long-term debt.

The Corporation also provides post-retirement health insurance coverage through the Postretirement Medical Benefit Plan (the "PMBP") for employees meeting specific criteria. As of August 31, 2020, the Corporation recognized a net benefit liability of $113 million for the PMBP, recorded as a liability within self-insurance reserves and other on the Corporation's consolidated balance sheets.

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 as Appendix B to this Offering Memorandum.

Capitalization

The table below sets forth the actual consolidated capitalization of the Corporation as of August 31, 2020, as of August 31, 2019 and as of February 28, 2021. Capitalization is not defined by accounting principles generally accepted in the United States and may not be comparable to similarly titled measures used by other organizations.

TABLE 6
Consolidated Capitalization
(Dollars in Thousands)

	As of August 31, 2019	As of August 31, 2020	As of February 28, 2021
	Actual	Actual	Actual
Net Long-Term Debt[(1)]	$1,935,414	$2,340,908	$2,326,612
Net Assets without Donor Restrictions	3,545,875	4,193,905	4,691,668
Total Consolidated Capitalization (non-GAAP)	$5,481,289	$6,534,813	$7,018,280
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	35.3%	35.8%	33.2%

(1) Total Debt does not include lease liability as of November 30, 2019.

Source: Corporation Records.

Cash and Investments

As of August 31, 2020, the Corporation's funds were invested across four portfolios that included: a liquidity portfolio, a short-term portfolio, a long-term liquidity portfolio and a long-term portfolio that invests in shares of the merged pool (the "Merged Pool"), which is one of the two Managed Investment Pools. The liquidity portfolio is invested in cash, cash equivalents and short-term government funds in order to maintain a high degree of liquidity. The short-term portfolio is invested in government securities and investment grade corporate securities. The long-term liquidity portfolio is invested in global equity and fixed income mutual funds and exchange traded funds. The Merged Pool is 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 Merged Pool are carried on its financial statements based on a value per share in such funds. Gains and losses are realized only upon the sale of such shares. For additional information regarding the composition of the Corporation's investments at August 31, 2020, accounting for the Corporation's interest in pooled investment 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 Offering Memorandum.

Liquidity

The following table sets forth the consolidated cash position and liquidity of the Corporation as of August 31, 2019 and as of August 31, 2020.

TABLE 7
Consolidated Liquidity
(Dollars in Thousands)

	As of August 31, 2019	As of August 31, 2020	As of February 28, 2021
Cash and Cash Equivalents	$ 505,509	$ 1,642,912	$ 1,104,525
Investments	1,155,156	806,085	1,695,421
Investments in Stanford University Managed Investment Pools[(1)]	1,478,554	1,610,737	2,049,961
Less With Donor Restriction			
Cash and Investments included above	(108,056)	(110,037)	(107,856)
Total Unrestricted Cash and Investments[†]	**$ 3,031,163**	**$ 3,949,697**	**$ 4,742,051**
Days Cash on Hand[†(2)]	230	273	310

(1) See Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included as Appendix B to this Offering Memorandum for a description of the Managed Investment Pools in which the Corporation has invested.

(2) Total unrestricted cash and investments multiplied by actual number of days, divided by the total operating expenses net of depreciation and amortization.

† Not defined by accounting principles generally accepted in the United States and may not be comparable to similarly titled measures used by other organizations.

Source: Corporation Records.

Debt Service Coverage

The following table sets forth the actual maximum debt service coverage on a consolidated basis for the Corporation for fiscal years ended August 31, 2020 and 2019, and pro forma debt service coverage for the fiscal year ended August 31, 2020, taking into account the changes in maximum annual debt service resulting from the issuance of the Bonds and the Taxable Bonds and the bond refundings and defeasance, as if such issuances and refinancing occurred on August 31, 2020, as described under "THE PLAN OF FINANCE" in the forepart of this Offering Memorandum, in each case calculated in accordance with the Master Indenture and based on the assumptions set forth in Footnote 1 below.

TABLE 8
Maximum Annual Debt Service Coverage
(Dollars in Thousands)

	As of August 31, 2019	As of August 31, 2020
Excess of revenues over expenses	$ 364,460	$ 190,537
Depreciation and Amortization	190,283	257,725
Interest Expense	42,431	68,019
Change in value of Stanford University Managed Pools	(76,748)	(161,720)
Earnings on Equity Method Investments	(8,315)	(19,592)
Interest Rate Swap Mark-to-Market Adjustments	134,269	36,496
Funds Available for Debt Service	$ 646,380	$ 371,465
Maximum Annual Debt Service[(1)]	$ 106,016	$ 128,990
Coverage of Maximum Annual Debt Service[(2)]	6.10	2.88
Pro Forma Maximum Annual Debt Service	116,222	116,222
Coverage of Pro Forma Maximum Annual Debt Service	5.56	3.20

(1) Assumes the Tax-Exempt Bonds will be remarketed upon their August 15, 2025 mandatory tender date and interest will be payable at the assumed rate of 2.00% until maturity. Assumes interest on all variable rate bonds is payable at the assumed rate of 2.00% to maturity; excludes swap cash flows. Pursuant to the terms of the Master Indenture, reflects smoothed debt service over 30 years on Balloon Indebtedness; assumes the Taxable Bonds, the Authority's 2020 Series A bonds issued for the benefit of SHC, SHC's Series 2020 taxable bonds and SHC's Series 2018 taxable bonds have level debt service over 30 years at the assumed rate of 2.62%.

(2) Ratio of Funds Available for Debt Service to the Maximum Annual Debt Service.

† Not defined by accounting principles generally accepted in the United States and may not be comparable to similarly titled measures used by other organizations.

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, 2020, the Corporation had nine floating-to-fixed rate Swaps outstanding, representing a total notional amount of $574.7 million, 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, 2020, the Corporation's mark-to-market liability on the Swaps totaled $353.3 million. 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. As of August 31, 2020, the Corporation had $52.3 million in cash posted with two counterparties. See Note 2 and Note 9 of the audited consolidated financial statements of the Corporation included in Appendix B to this Offering Memorandum for more information related to the Corporation's Swaps. The Corporation's regularly scheduled payments with respect to the Swaps are secured under the Master Indenture on a parity with debt service payments with respect to the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—The Master Indenture" in the forepart to this Offering Memorandum.

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 Services ("CMS") 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 summarizes the percentage of net patient revenues by source of payment to the Corporation for the fiscal years ended August 31, 2018, 2019 and 2020.

TABLE 9
Net Patient Service Revenues

	Fiscal years ended August 31,		
Source	**2018**	**2019**	**2020**
Medicare	19%	18%	18%
Medi-Cal	3	3	2
Managed Care – Discount Fee for Services	75	76	77
Self-Pay and Other	3	2	2
Related Party	1	1	1
Patient Service Revenue, Net of Contractual Allowances	101	100	100
Provision for Doubtful Accounts	-1		
Net Patient Service Revenue	100%	100%	100%

Source: Corporation Records.

Net 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 Offering Memorandum 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, 2020 were Anthem Blue Cross, Blue Shield of California, Aetna, and UnitedHealthcare. All commercial agreements are fee-for-service. Fee-for-service reimbursement employs the traditional methodologies including percentage of charges, per diems, case rates, surgical schedules and stop-loss.

Hospital Fee Program

State law imposes a fee on California's general acute care hospitals, except for public hospitals and certain exempt hospitals (the "Hospital Fee Program"). Proceeds of the Hospital Fee Program are used to earn federal matching funds for Medi-Cal. The California Medi-Cal Hospital Reimbursement Initiative, or Proposition 52, passed in November 2016 and extends the Hospital Fee Program indefinitely. The program is subject to CMS approval. For more information about the Hospital Fee Program, see "BONDHOLDERS' RISKS—Patient Service Revenues—California Hospital Provider Fee" in the forepart to this Offering Memorandum.

SHC recognized $67 million, $94 million, and $90 million, in net patient service revenue and $55 million, $40 million, and $77 million, in other expense related to the Hospital Fee Program for the years ended August 31, 2020, 2019, and 2018, respectively.

See Note 3 of the audited consolidated financial statements of the Corporation included in Appendix B to this Offering Memorandum for more information related to the Hospital Fee Program.

ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL 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 ("TJC"), which conducted its last on-site survey in June 2019. TJC conducts unannounced on-site surveys for the hospital program within a three year time frame.

The Corporation is accredited for Laboratory Services by TJC, which conducted its last on-site survey in November 2020. The Corporation is certified by TJC for Comprehensive Stroke Care (last survey in December 2018), Ventricular Assist Devices (last survey in August 2019) and Comprehensive Cardiac Center (initial survey in February 2020). TJC Laboratory Services and Disease Specific Care Certification are resurveyed every two years.

In addition to recurring accreditation surveys by TJC, the Corporation is subject from time to time to relicensing and incident-based surveys by CDPH, acting on behalf of CMS, to determine compliance with CMS Hospital Conditions of Participation ("CoP"). If such surveys, known as "validation surveys," substantiate the provider's noncompliance with CoP, CMS has authority to take enforcement actions up to termination of the Medicare provider agreement. CDPH conducted an incident-based survey in October 2019 related to an alleged violation of EMTALA which has been resolved by CMS. The Corporation remains a Medicare participating hospital, is fully licensed by CDPH and is fully accredited by TJC.

PROFESSIONAL LIABILITY AND OTHER INSURANCE

The Corporation maintains coverage for professional 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 owned and controlled by the Corporation and LPCH. SUMIT provides medical and hospital professional liability, general liability, employment practices liability, miscellaneous errors and omissions liability, and cyber liability to the

Corporation and LPCH. SUMIT provides medical malpractice and cyber liability to the School of Medicine (including the clinical activities of its faculty).

For the policy year September 1, 2020 through September 1, 2021, SUMIT retains 100% of the risk for the first $15 million per claim for professional and general liability losses by the Corporation, LPCH and the School of Medicine, with an annual policy aggregate of $27 million. SUMIT purchases $165 million of excess reinsurance from various reinsurance companies rated "A" or better by A.M. Best rating agency. In addition to excess reinsurance, SUMIT purchases a "buffer" that reduces SUMIT's liability for the first claim from $15 million to $10 million and reduces the annual policy aggregate from $27 million to $22 million. For policy years prior to September 1, 2005, SUMIT provided occurrence-based coverage for the risk related to the primary loss layer in amounts varying year to year since SUMIT was established in April 2000.

SUMIT self-insures the first $1.25 million per claim for cyber liability coverage in excess of $1.25 million per claim. SUMIT purchases $90 million of excess reinsurance jointly covering LPCH, SHC, the School of Medicine, UHA and PCHA.

In addition to SUMIT, the Corporation obtains coverage for 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 the limits available to the other on each claim. The Corporation secures the following coverage jointly with LPCH:

- Workers' compensation in amounts in excess of a $750,000 deductible, per claim for any fiscal year.

- Property in an aggregate blanket amount of $1.5 billion of coverage per claim with a $250,000 deductible, subject to various sublimits, exclusions, and 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 purchase earthquake coverage.

- Directors and officers ("D&O") and employment practices liability ("EPL") in aggregate of $50 million in limits subject to a self-insured D&O retention of $750,000 per claim and a self-insured EPL retention of $1 million per claim.

- Terrorism coverage with $25 million in limits, subject to a $500,000 retention.

- Nuclear, Chemical, Biological, and Radiological coverage with $25 million in limits, subject to a $1 million retention.

- Fiduciary coverage with $60 million in limits, subject to a $50,000 retention.

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. Pending matters include a qui tam lawsuit against the Corporation alleging false claims related to billing, which is on appeal from dismissal, employment-related and wage-and-hour putative class action suits in various stages of litigation, and other litigation arising from the Corporation's operations, all of which the Corporation is

vigorously contesting, against which it believes that it has meritorious defenses and the amount and likelihood of loss of which the Corporation is unable to estimate. There is not now, pending or threatened, any litigation restraining or enjoining the offering of the Bonds, if issued, or questioning or affecting the validity of the Bonds, if issued, or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Corporation nor the title of the present directors or officers of the Corporation to their respective offices is being contested. The Corporation is not now a party to any pending litigation, and is not aware of any circumstances that would likely result in such litigation that in any manner questions the right of the Corporation to use the proceeds of the Bonds, if issued, as described in this Offering Memorandum.

EMPLOYEES

As of August 31, 2020, the Corporation employed 11,258 full-time and 1,997 part-time staff, equivalent to 11,808 full-time equivalent employees.

As of August 31, 2020, the Corporation employed 4,051 full and part-time registered nurses. Turnover rate for the registered nursing staff for the past twelve months was approximately 6.8%.

As of August 31, 2020, approximately 33% of the Corporation's 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–United Healthcare Workers ("SEIU–UHW"), respectively. The current CRONA contract is in effect through March 2022. The current contract with SEIU–UHW is in effect until September 2023.

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APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF SHC AND SUBSIDIARIES

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Stanford Health Care

Consolidated Financial Statements
and Accompanying Consolidating Information
August 31, 2020 and 2019

Stanford Health Care
Index
August 31, 2020 and 2019

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 5-47

Report of Independent Auditors 49

Accompanying Consolidating Information:

Consolidating Balance Sheet 50

Consolidating Statement of Operations and Changes in Net Assets 51

Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the accompanying consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries, which comprise the consolidated balance sheets as of August 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to SHC's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SHC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stanford Health Care and its subsidiaries as of August 31, 2020 and 2019, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 2, 2020

Stanford Health Care
Consolidated Balance Sheets
August 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 1,642,912	$ 505,509
Assets limited as to use, held by trustee	92	11
Short term investments	-	399,639
Patient accounts receivable, net	654,342	685,425
Other receivables	165,737	93,529
Inventories	125,082	69,831
Prepaid expenses and other	108,587	84,524
Total current assets	2,696,752	1,838,468
Investments	689,110	657,554
Investments at equity	116,975	97,963
Investments in University managed pools	1,610,737	1,478,554
Property and equipment, net	3,646,012	3,691,015
Right of use lease assets	341,580	-
Other assets	58,533	78,360
Total assets	$ 9,159,699	$ 7,841,914
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 908,249	$ 557,284
Accrued salaries and related benefits	287,411	275,099
Due to related parties	52,128	103,779
Third-party payor settlements	55,112	29,918
Current portion of long-term debt	116,045	114,235
Debt subject to remarketing arrangements	168,200	228,200
Operating lease liabilities, current	76,066	-
Self-insurance reserves and other	58,186	59,424
Total current liabilities	1,721,397	1,367,939
Self-insurance reserves and other, net of current portion	224,858	174,040
Swap liabilities	353,292	316,796
Operating lease liabilities, non-current	287,053	-
Other long-term liabilities	180,333	150,464
Pension liability	8,655	17,048
Long-term debt, net of current portion	2,056,663	1,592,979
Total liabilities	4,832,251	3,619,266
Net assets:		
Without donor restrictions:		
Stanford Health Care	4,169,459	3,518,964
Noncontrolling interests	24,446	26,911
Total without donor restrictions	4,193,905	3,545,875
With donor restrictions	133,543	676,773
Total net assets	4,327,448	4,222,648
Total liabilities and net assets	$ 9,159,699	$ 7,841,914

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

Stanford Health Care
Consolidated Statements of Operations and Changes in Net Assets
Years Ended August 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
Operating revenues and other support:		
Net patient service revenue	$ 5,140,938	$ 5,113,052
Premium revenue	116,971	106,130
Grants - COVID-19	124,551	-
Other revenue	174,293	157,757
Net assets released from restrictions used for operations	10,823	13,063
Total operating revenues and other support	5,567,576	5,390,002
Operating expenses:		
Salaries and benefits	2,548,259	2,302,399
Professional services	38,463	41,300
Supplies	820,403	727,136
Purchased services	1,458,959	1,350,708
Depreciation and amortization	257,725	190,283
Interest	68,019	42,431
Other	460,483	483,258
Expense recoveries from related parties	(105,779)	(130,800)
Total operating expenses	5,546,532	5,006,715
Income from operations	21,044	383,287
Interest and investment income	43,973	42,904
Earnings on equity method investments	19,592	8,315
Change in value of University managed pools and other	161,720	76,748
Swap interest and change in value of swap agreements	(53,722)	(146,794)
Other components of net periodic benefit costs	(2,070)	-
Excess of revenues over expenses	190,537	364,460
Other changes in net assets without donor restrictions:		
Transfers to Stanford University	(98,367)	(120,090)
Change in net unrealized (loss) gain on investments	(1,249)	22,825
Net assets released from restrictions used for:		
Purchase of property and equipment	3,248	977
Purchase of property and equipment - New Stanford Hospital	555,219	-
Change in pension and postretirement liability	1,042	(26,422)
Noncontrolling capital distribution	(2,400)	-
Increase in net assets without donor restrictions	648,030	241,750
Changes in net assets with donor restrictions:		
Transfers from (to) Stanford University	162	(316)
Contributions and other	22,084	31,079
Investment income	929	815
Gains on University managed pools	2,885	2,176
Net assets released from restrictions used for:		
Operations	(10,823)	(13,063)
Purchase of property and equipment	(3,248)	(977)
Purchase of property and equipment - New Stanford Hospital	(555,219)	-
(Decrease) increase in net assets with donor restrictions	(543,230)	19,714
Increase in net assets	104,800	261,464
Net assets, beginning of year	4,222,648	3,961,184
Net assets, end of year	$ 4,327,448	$ 4,222,648

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 107,265	$ 253,280
Change in noncontrolling interests	(2,465)	8,184
Total change in net assets	104,800	261,464
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	254,619	188,878
Change in fair value of interest rate swaps	36,496	134,269
Increase in value of University managed pools	(125,020)	(76,748)
Unrealized gains on investments	(36,916)	(23,391)
Excess of income on equity method investees over distributions received	(20,784)	(6,241)
Contributions received for long lived assets or endowment	(23,055)	(45,967)
Net equity transfers to/from related parties	98,205	120,406
Premiums received from bond issuance	19,885	-
Changes in operating assets and liabilities:		
Patient accounts receivable	31,083	(62,348)
Due to related parties	(8,288)	(8,388)
Other receivables, inventory, other assets, prepaid expenses and other	(145,207)	(48,251)
Accounts payable, accrued liabilities and pension liabilities	509,198	107,407
Accrued salaries and related benefits	12,312	65,609
Third-party payor settlements	25,194	(4,556)
Self-insurance reserves	49,580	38,690
Cash provided by operating activities	782,102	640,833
Cash flows from investing activities:		
Purchases of investments	(50,217)	(580,481)
Sales of investments	464,921	446,579
Purchases of investments at equity	-	(11,244)
Purchases of investments in University managed pools	(6,774)	(2,850)
Sales of investments in University managed pools	1,076	2,586
Swap settlement payments, net	(16,825)	(12,595)
Purchases of property and equipment	(310,641)	(553,642)
Cash provided by (used in) investing activities	81,540	(711,647)
Cash flows from financing activities:		
Proceeds from issuance of debt	470,120	-
Costs of issuance of debt	(4,006)	(98)
Payment of long-term debt and finance lease obligations	(74,134)	(14,610)
Contributions received for long lived assets or endowment	24,015	45,952
Net equity transfers to/from related parties	(142,153)	(107,166)
Cash provided by (used in) financing activities	273,842	(75,922)
Net increase (decrease) in cash and cash equivalents	1,137,484	(146,736)
Cash and cash equivalents, beginning of year	505,520	652,256
Cash and cash equivalents, end of year	$ 1,643,004	$ 505,520
Supplemental data:		
Cash and cash equivalents as shown on the consolidated balance sheets	$ 1,642,912	$ 505,509
Restricted cash included in assets limited as to use, held by trustee	92	11
Total cash and cash equivalents as shown on the statement of cash flows	$ 1,643,004	$ 505,520
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 69,105	$ 43,602
Supplemental disclosures of non cash information:		
(Decrease) increase in payables for property and equipment	$ (100,190)	$ 48,461
Equity transfers to related parties, net	(3,012)	(47,096)

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

1. Organization

Stanford Health Care ("SHC") operates a licensed acute care hospital ("Stanford 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 SHC's "Strategic Clinical Services". SHC, 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 SHC and LPCH. As part of their ongoing operations, SHC and LPCH engage in certain related party transactions as described further in Note 13.

The consolidated financial statements include SHC's interest in University HealthCare Alliance ("UHA"), The Hospital Committee for the Livermore-Pleasanton Areas (dba Stanford Health Care - ValleyCare) ("SHC-VC"), Stanford Blood Center, LLC ("SBC"), Stanford Emanuel Radiation Oncology Center, LLC ("SEROC"), CareCounsel, LLC ("CareCounsel"), SUMIT Holding International, LLC ("SHI"), Professional Exchange Assurance Company ("PEAC"), and Stanford Health Care Advantage ("SHC Advantage").

UHA, a physician medical foundation, supports SHC's mission of delivering quality care to the community and conducting research and education. In addition, UHA leads the development of a high quality clinical delivery network, built on collaboration with and sponsorship of community hospitals, on behalf of the SoM, SHC, and UHA physicians. The SoM and SHC are the members of UHA and appoint directors to the governing board. The UHA bylaws afford control to SHC. 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.

SHC-VC, a leading 242 bed community hospital system located in the East Bay's Tri-Valley region of Pleasanton, Livermore, and Dublin offers both inpatient and outpatient services. SHC is the sole corporate member.

SBC is a limited liability company that serves as a community blood center and provides blood products and testing services to hospitals, clinics, companies, and other clients. SHC is the sole member of SBC.

SEROC is a joint venture between SHC and the Doctors Medical Center of Modesto, Inc. ("DMC"). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. SHC's interest in SEROC was 60% for the years ended August 31, 2020 and 2019. The remaining interest of 40% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2020 and 2019.

1. Organization (Continued)

CareCounsel is a leading provider of employer-sponsored health advocacy and health care assistance services with a mission to help employees, retirees and their families navigate the complex health care environment through an employer-sponsored benefit that provides consumer education, advocacy and access to expert health care resources and information.

SHI is the sole owner of SUMIT Insurance Company Ltd. ("SUMIT") and Stanford University Medical Network Risk Authority, LLC (dba The Risk Authority) ("TRA"). SHC and LPCH are the owners of SHI.

SHC's share of net assets in SUMIT, a captive insurance carrier, was 77.8% and 70.1% for the years ended August 31, 2020 and 2019, respectively. LPCH's share of net assets in SUMIT was 22.2% and 29.9% for the years ended August 31, 2020 and 2019, respectively, and is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

TRA provides risk management services to SHI and serves as attorney-in-fact to PEAC. TRA sold the assets of PHT Services, Ltd., a South Carolina risk management services wholly owned corporation, on August 31, 2020 to Health Care Risk Services South Carolina Ltd. SHC's share of net assets in TRA is 82% and the remaining 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2020 and 2019.

PEAC, a captive insurance carrier, provides insurance coverage to UHA, Packard Children's Health Alliance and other affiliated parties. SHC's share of net assets in PEAC was 59.4% and 63.3% for the years ended August 31, 2020 and 2019, respectively. The remaining interest of 40.6 % and 36.7% for the years ended August 31, 2020 and 2019, respectively, is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

SHC Advantage, a non-profit public benefit corporation, provides comprehensive healthcare coverage options to elderly and disabled eligible Medicare populations and is controlled solely by SHC. On December 6, 2019, an acquisition agreement was entered into with Essence Plan Holdings, LLC ("Buyer") and is targeted to close on January 1, 2021, at which time SHC Advantage will convert to a for-profit organization and the Buyer will own 83% of the Company and SHC will own 17%. Effective September 1, 2020, Lumeris Healthcare Outcomes, LLC, an affiliate of the buyer, will perform health plan operations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of SHC and its subsidiaries, which are controlled by SHC. 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:

- ***Net Assets Without Donor Restrictions*** — Net assets without donor restrictions represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on net assets without donor restrictions 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.

- ***Net Assets With Donor Restrictions*** — Net assets with donor restrictions 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 or 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 net assets without donor restrictions. 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. Net assets with donor restricted contributions are recorded as contributions with donor restrictions 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 net assets with donor restrictions that is restricted by donor or law is recorded in the category of net assets with donor restrictions 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. Cash and cash equivalents that are held for investment purpose are classified as investments, as further described in Note 6. SHC has elected the policy to treat cash equivalents as short-term investments, therefore, excluded from cash and cash equivalents on the consolidated statements of cash flows.

Assets Limited as to Use, Held by Trustee

Assets limited as to use include various accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash. Amounts required to fund current liabilities have been classified as current assets in the consolidated balance sheet at August 31, 2020. There were $92 and $11 assets limited as to use in the consolidated balance sheet at August 31, 2020 and 2019, respectively.

2. Summary of Significant Accounting Policies (Continued)

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

Investments
Investments held directly by SHC consist of cash and cash equivalents, mutual funds, and investments in non-public entities 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, and dividends on investment securities) net of investment expenses 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. Unrealized gains and losses on other than debt securities classified as other-than-trading are reported above the performance indicator.

Investments at Equity
Investments at equity consist of investments in which SHC has ownership of 50% or less but is able to exercise significant influence over the investee. These investments include Stanford-StartX Fund, LLC (''StartX Fund''), Stanford PET-CT, LLC ("PET-CT"), Pleasanton Physician Affiliates II, LLC (''PPA II''), and Innovence Augmented Intelligence Medical Systems - Psychiatry, LLC ("AIMS"). All earnings from StartX Fund and PPA II are included in earnings on equity method investments in the consolidated statements of operations and changes in net assets. Earnings from PET-CT and AIMS are included in other revenue in the consolidated statements of operations and changes in net assets.

The mission of StartX, a California nonprofit public benefit corporation, is to accelerate the development of students, faculty and alumni of the University identified by StartX as high potential entrepreneurs through an experiential educational program. StartX Fund is a California limited liability company created to support the continued experiential education of participants in the StartX accelerator program. SHC's interest in StartX Fund was 33% for the years ended August 31, 2020 and 2019.

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, 2020 and 2019.

PPA II is a California limited liability company which owns and operates a medical office building in Pleasanton. SHC-VC's interest in PPA II was 39% for the years ended August 31, 2020 and 2019.

AIMS is a Delaware limited liability company which provides research and development of applications to reduce suicide and self-harm. TRA and Mersey Care NHS Foundation Trust, a United Kingdom based company, each have a 50% interest in AIMS for the year ended August 31, 2020 and 2019.

2. Summary of Significant Accounting Policies (Continued)

Investments in University Managed Pools
Investments in University managed pools consist of funds invested in the University's Merged 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. 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. All investment gains and losses and increases and decreases in share value are treated as realized and unrealized 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.

Financial Assets and Liquid Resources
SHC has put in place a range of policies and measures to actively manage its liquidity and make sure the organization's financial obligations can be satisfied. To ensure adequate liquidity through the full range of potential operating environments and market conditions, SHC maintains the ability to liquefy certain assets when, and if, requirements warrant.

Liquidity is managed within pools known as investment portfolios. The SHC Investment Program has established four distinct investment portfolios into which SHC may invest its cash and operating reserves. These portfolios have been established to address varying degrees of liquidity requirements, return expectations and tolerance levels for risk.

The primary sources of liquidity are the liquidity and short-term portfolios; invested in cash, U.S. Government and Agency securities and short-term bond funds. The amount of liquidity held in these portfolios is largely determined by internal liquidity projections which periodically estimate potential funding requirements. Funding requirements include:

- Cash and collateral outflows, as well as potential capital and funding support required for operations
- Repayment of all maturing debt and credit facilities
- Other large committed payments

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets and Liquid Resources (continued)
Operating liquidity is monitored daily and reported periodically to senior management and the Board. When determining the appropriate allocation of funds across the various investment portfolios, SHC limits the percentage of the investment portfolio that is not readily realizable. Additionally, SHC maintains a cushion of excess liquidity that would be sufficient to fully fund operations and commitments for an extended period during which funding from normal sources is disrupted. The primary measure used to assess SHC's liquidity is "Days Cash on Hand" during such period of liquidity disruption. This measure assumes that SHC is unable to generate funds from normal business operations or from the issuance of debt while continuing to meet obligations to maintain operations and repayment of contractual principal and interest payments owed. Once a sufficient level of liquidity is established, excess cash is invested in the intermediate or long-term portfolios. The intermediate-term portfolio is primarily invested in fixed income and equity mutual funds which can be liquidated on short notice while the long-term portfolio is invested in shares of the MP. Per SHC's agreement with the Stanford Management Company (''SMC''), SHC can withdraw annually up to 10% of its investments with SMC after providing a six month notice. It is not the intention of SHC to utilize the long-term portfolio for unplanned operating commitments; however, amounts could be made available from these sources if necessary.

Financial assets and resources available for general expenditure within one year of the consolidated statement of financial position date for general expenditure for years ended at August 31, consist of following:

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 1,642,912	$ 505,509
Accounts receivable, net	654,342	685,425
Short-term investments	-	399,639
Investments in mutual funds	556,960	504,872
10% of long-term investments in Merged Pool	152,300	144,974
Financial assets available to meet cash needs for general expenditure within one year	$ 3,006,514	$ 2,240,419
Liquidity resources:		
Revolving line of credit capacity	200,000	200,000
Total financial assets and liquidity resources available within one year	$ 3,206,514	$ 2,440,419

After August 31, 2020, SHC extended its revolving line of credit facility and reduced its amount, as described further in Note 17.

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 determined 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 leasehold improvements	7 to 50 years
Equipment	3 to 20 years

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. Leasehold improvements are amortized over the shorter of the estimated useful life or term of the lease. 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.

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 in property and equipment. Asset retirement costs are subsequently accreted over the useful lives of the related assets.

Leases
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)". The new guidance was adopted by SHC and its subsidiaries in fiscal year 2020. The ASU and subsequent amendments require lessees to recognize assets and liabilities on the balance sheet for all in-scope leases with a term of greater than twelve months and require disclosure of certain quantitative and qualitative information pertaining to an entity's leasing arrangements. This replaces the existing lease accounting guidance in GAAP that required only capital leases to be recognized on lessee's balance sheet. SHC adopted the ASU as of September 1, 2019. SHC elected the transition relief package of practical expedients by applying previous accounting conclusions under Accounting Standard Codification ("ASC") Topic 840, Leases ("ASC 840"), to all leases that existed prior to the transition date. As a result, SHC did not reassess (i) whether existing or expired contracts contain leases, (ii) lease classification for any existing or expired leases, or (iii) whether lease origination costs qualified as initial direct costs. SHC did not elect the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of right-of-use assets.

ASC Topic 842 similarly includes various other practical expedients that can be elected for new leases that are executed after the adoption of the new requirements. SHC elected the practical expedient to not separate lease and non-lease components. SHC also elected to apply the short-term lease recognition exemption which eliminates the requirement to present on the consolidated balance sheets leases with a term of twelve months or less. These two practical expedients were elected for all classes of underlying assets.

Adoption of the standard resulted in the recognition of operating lease right-of-use assets and operating lease liabilities of $317,870 and $337,573, respectively, as of September 1, 2019. Refer to Note 14 for additional information related to the SHC's accounting for leases.

Other Assets
Other assets include long-term portion of contributions receivable, intangible assets, and other long-term assets.

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 net assets with donor restrictions. 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 are recorded in the category of net assets with donor restrictions. In accordance with current accounting guidance, the discount rates were determined using the risk free rate adjusted for the risk of donor default. Current and long-term portions of contributions receivable are included in other receivables and other assets in the consolidated balance sheets, respectively, and contribution revenue is included in the consolidated financial statements in the appropriate net asset category. 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, Discounts and Deferred Financing Costs 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. 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. The unamortized portion of these premiums, discounts and deferred financing costs are included in long-term debt on the consolidated balance sheets.

Interest Rate Swap Agreements
SHC entered into several interest rate swap agreements to reduce the effect of interest rate fluctuation on its variable rate bonds. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. Changes in the fair value of interest rate swaps are included in excess of revenues over expenses. In fiscal year 2020 and 2019, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as a decrease to swap interest and change in value of swap agreements in the consolidated statements of operations and changes in net assets.

Excess of Revenues over Expenses (Performance Indicator)
The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions 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 debt securities classified as other-than-trading, 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.

Net Patient Service Revenue
Net patient service revenue is reported at the amount that reflects the consideration to which SHC expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. 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.

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (continued)
Thus, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Generally, SHC bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by SHC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. SHC believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligations based on the inputs needed to satisfy the obligation. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services.

SHC measures the performance obligations from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and SHC does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, SHC has elected to apply the optional exemption provided in the FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The transaction price is based on standard charges for services provided to patients, reduced by applicable contractual adjustments, discounts to under and uninsured patients, and implicit pricing concessions. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policy, and historical collection experience. The process for estimating the ultimate collectability of patient accounts receivable involves historical collection experience, changes in contracts with payors, and significant assumptions and judgment.

SHC has elected to apply the practical expedient allowed under FASB ASC 606-10-10-4 for applying to a portfolio of contracts with similar characteristics. SHC accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analysis, SHC has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

SHC has elected to apply the practical expedient allowed under FASB ASC 606-10-32-18 for the financing component, as the period of time between the service being provided and the time that the patient pays for service is typically one year or less.

2. Summary of Significant Accounting Policies (Continued)

Charity Care and Community Benefits
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. Such amounts are considered community benefits.

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

SHC Advantage receives premium revenue from the Centers for Medicare & Medicaid Services ("CMS") to provide Medicare services to members. Premium revenue is recognized in the month in which the member is eligible for Medicare services. Costs are accrued when services are rendered, including cost estimates of IBNR claims.

Income Taxes
SHC, UHA, SHC-VC and SHC Advantage are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. SBC, SEROC, CareCounsel and SHI are limited liability companies and taxable income flows through to the individual members. SUMIT is currently exempt from all taxes until March 31, 2035. TRA is a limited liability company, but has elected to be taxed as a corporation. PEAC is a taxable corporation. SHC and its subsidiaries have no uncertain tax positions pertaining to unrelated business income.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. Under the Act, SHC is subject to a 21% excise tax on executive compensation in excess of one million dollars paid to certain covered employees. The University is subject to a 1.4% excise tax on its net investment income as defined under the Internal Revenue Code which, among other things, includes net investment income of certain related entities such as SHC. SHC is also subject to the computation of Unrelated Business Taxable Income ("UBTI") separately for each unrelated trade or business. The potential implications of the Act are complex and interpretative guidance is still developing. SHC continues to evaluate the impact of the Act on current and future tax positions.

Self-Insurance Plans
SHC, SHC-VC and SBC self-insure 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.

2. Summary of Significant Accounting Policies (Continued)

Self-Insurance Plans (continued)

- ***Professional Liability*** — SHC, SHC-VC and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC-VC and SBC also maintain professional liability reserves for claims not covered by SUMIT which total $10,513, $831 and $67 as of August 31, 2020, respectively. As of August 31, 2019, this coverage was $8,080, $933 and $61 for SHC, SHC-VC and SBC, respectively. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence. The next $165,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.

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

- ***Workers' Compensation*** — SHC, SHC-VC and SBC purchase 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.

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.

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 payors. Patient accounts receivable consist of amounts due from commercial insurance companies, governmental programs, private pay patients and other third-party payors.

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, ARO, amounts due to third-party payors, retirement plan obligations, and self-insurance reserves. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2020 and 2019
The FASB ASC is the sole source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP").

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* This update eliminates the requirement to disclose the fair value of financial instruments measured at cost and requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in excess of revenues over expenses. The portion of this guidance that eliminates the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) has been early adopted in the fiscal year ending August 31, 2019. The remaining guidance did not have material impact on SHC's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which adds, modifies, and removes some fair value measurement disclosure requirements. The guidance is effective for SHC during the fiscal year ending August 31, 2021. SHC early adopted the portion of this guidance that modifies and removes fair value disclosure requirements and it did not materially impact SHC's consolidated financial statements.

Revenue recognition - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. SHC adopted ASU 2014-09 on September 1, 2018 using the modified retrospective method of transition. SHC performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, SHC performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts are presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets and treated as a price concession that reduces the transaction price, which is reported as net patient service revenue.

The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total without donor restrictions, excess of revenues over expenses or total net assets.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The guidance was effective for SHC during the fiscal year ending August 31, 2019 and did not materially impact SHC's consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2020 and 2019 (continued)
Not-for-profit ("NFP") reporting - In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which modifies current NFP reporting requirements. This update changes the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The most significant change is the updated presentation of net assets in two classes: net assets without donor restrictions and net assets with donor restrictions. SHC adopted on a retrospective basis during the fiscal year ending August 31, 2019 and the adoption did not have a material impact on the consolidated financial statements.

Pension service costs - In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that an employer report the service cost component of pension costs in the same line item as employee compensation costs within income from operations. The other components of net benefit cost are required to be presented in the statement of operations and changes in net assets separately from the service cost component and outside a subtotal of income from operations, and will not be eligible for capitalization. The guidance was effective for SHC during the fiscal year ending August 31, 2020 and did not have material effect on SHC's consolidated financial statements.

Leases - In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The guidance was effective for SHC during the fiscal year ending August 31, 2020, and applied on a modified retrospective basis.

Statement of cash flows - In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance has been adopted and did not materially impacted on SHC's consolidated financial statements.

In November 2016, the FASB issued an ASU 2016-18, *to add or clarify Guidance on the Classification and Presentation of Restricted Cash in the Statement of Cash Flows.* This update requires the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance has been adopted retrospectively in fiscal year 2020 and did not materially impacted on SHC's consolidated financial statements.

Recent Pronouncements – effective in future periods
Collections - In March 2019, the FASB issued ASU 2019-03, *Updating Definition of Collections*. This ASU specifically addresses the use of proceeds from sales of collections and related disclosures. The guidance is effective for SHC during the fiscal year ending August 31, 2021. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

Defined benefit plan disclosures - In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,* which adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. The guidance is effective for SHC during the fiscal year ending August 31, 2022. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in future periods (continued)
Cloud computing arrangements - In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, to allow capitalization of implementation costs incurred in a cloud computing arrangement in a manner that is consistent with the capitalization of implementation costs incurred to develop or obtain internal-use software. The guidance is effective for SHC during the fiscal year ending August 31, 2022. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

3. Net Patient Service Revenue

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

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

  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 administrative contractor. 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 administrative contractor through August 31, 2010. Professional services are reimbursed based on a fee schedule.

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

- ***Managed Care Organizations*** — SHC entered into agreements with numerous third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

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

  - Managed Care contracts such as those with HMOs and Preferred Provider Organizations ("PPOs"), which reimburse SHC at contracted or per diem rates, which are usually less than full charges. PPOs give their members multiple choices in health care and health care providers.

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

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

Uninsured — For uninsured patients that do not qualify for charity care, SHC recognizes revenue on the basis of its standard rates for services less an uninsured discount applied to the patient's account and implicit pricing concession that approximates the average discount for Managed Care payors.

Patient service revenue, net of price concessions, by major payor for the years ended August 31, is as follows:

	2020	2019
Medicare	$ 921,709	$ 937,369
Medi-Cal	108,751	150,184
Managed Care - Discounted Fee For Services	3,957,801	3,871,597
Self pay and other	114,470	115,527
Related party	38,207	38,375
Net patient service revenue	$ 5,140,938	$ 5,113,052

SHC recognized net patient service revenue adjustments of $10,750 and $20,336 as a result of prior years unfavorable and favorable developments related to reimbursement for the years ended August 31, 2020 and 2019, respectively. SHC did not recognize revenues as a result of prior years appeals settled during the year ended August 31, 2020 and 2019.

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

	2020	2019
Blue Cross	28%	26%
Medicare	16%	13%
Aetna	12%	11%
Blue Shield	11%	10%
United Health	8%	10%

SHC does not believe significant credit risks exist with these payors. Excluding these payors, no one payor represents more than 10% of the SHC's patient receivables or net patient service revenue. The adoption of ASU 2014-09 has no impact on the SHC's patient receivables as it was historically recorded net of allowance for uncollectible accounts and contractual adjustments on the consolidated balance sheets.

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program
The State of California enacted Senate Bill 239 in October 2013 which established the Hospital Quality Assurance Fee ("HQAF") for January 1, 2014 through December 31, 2021. CMS has approved, and SHC has recognized as revenue on the date of approval, supplemental payments related to the following programs and periods:

- Fee-For-Service ("FFS") programs for January 1, 2014 through December 31, 2021.
- Managed Care programs for the expansion population for January 1, 2014 through December 31, 2016.
- Managed Care programs for the non-expansion population for January 1, 2014 through December 31, 2016.
- Managed Care programs for the pass-through population for January 1, 2017 through June 30, 2017.

For the years ended August 31, 2020 and 2019, respectively, SHC recognized $66,459 and $93,880 in net patient service revenue for Medi-Cal FFS and Managed Care supplemental payments provided for under the California provider fee programs.

For the years ended August 31, 2020 and 2019, respectively, SHC recognized $54,914 and $39,544 in other expense for HQAF paid to the California Department of Health Care Services. Expenses were paid for the same CMS approved programs noted above.

California's participation in the provider fee program, as authorized under federal regulations, has been made permanent by the passage of Proposition 52, an initiative on the November 2016 ballot. The first iteration and second iteration of the hospital provider fee program under the permanent legislation covering the period from January 1, 2017 to June 30, 2019 and July 1, 2019 to December 31, 2021, respectively, has been approved by CMS for the FFS program and only the first six months of Managed Care pass-through program of the first iteration. Accordingly, any potential activity under the Managed Care program related to July 1, 2017 through December 31, 2021 has not been recorded in the consolidated financial statements.

SHC recorded $53,510 and $31,602 in deferred revenue as of August 31, 2020 and 2019, respectively, pending CMS approval. SHC also recorded $30,402 and $22,214 as prepaid expense for the years ended August 31, 2020 and 2019 respectively, pending CMS approval. Deferred revenue and prepaid expenses associated with unapproved HQAF will be recognized as revenue and expense respectively, upon CMS approval.

(in thousands of dollars)

4. Charity Care, Uncompensated Costs and Community Benefits

SHC engages in numerous community benefit programs and services. These services include health research, education and training and other benefits for the larger communities 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 are as follows:

	2020	2019
Charity care at established rates	$ 105,591	$ 112,665
Estimated cost of charity care, net	$ 23,432	$ 23,978

The estimated cost of providing charity care is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on SHC's total expenses divided by gross patient service charges. SHC received $825 and $410 during the years ended August 31, 2020 and 2019, respectively, from contributions that were restricted for the care of indigent patients.

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

	2020	2019
Charity care	$ 23,432	$ 23,978
Medi-Cal	382,437	277,994
Medicare	988,809	854,133
Total	$ 1,394,678	$ 1,156,105

5. Contributions Receivable

Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using a discount rate of 0.64% for new receivables recorded in fiscal year 2020 and 1.88% for receivables recorded in fiscal year 2019.

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

	2020	2019
In one year or less	$ 29,932	$ 29,691
Between one year and five years	18,116	33,348
More than five years	4,687	6,021
	52,735	69,060
Less: discount/allowance	(5,339)	(6,664)
Total contributions receivable, net	47,396	62,396
Less: current portion	(26,944)	(27,242)
Contributions receivable, net of current portion	$ 20,452	$ 35,154

(in thousands of dollars)

5. Contributions Receivable (Continued)

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

	2020	2019
Plant replacement and expansion	$ 51,765	$ 67,259
Other patient and clinical services	970	1,801
Total	$ 52,735	$ 69,060

There were no conditional pledges at August 31, 2020 and 2019.

6. Investments and Investments in University Managed Pools

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

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Short term investments:				
Mutual funds	$ -	$ -	$ 397,058	$ 399,639
Investments:				
Cash and cash equivalents	$ 55,522	$ 55,522	$ 62,205	$ 62,205
Mutual funds	562,784	624,910	563,887	585,071
Public equity	-	-	488	3,761
Other	2,208	8,678	385	6,517
Total	$ 620,514	$ 689,110	$ 626,965	$ 657,554

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

	Fair Value	
	2020	2019
Investments in University managed pools:		
Merged Pool	$ 1,604,095	$ 1,472,256
Expendable Funds Pool	6,642	6,298
Total	$ 1,610,737	$ 1,478,554

The 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.

(in thousands of dollars)

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

The MP's investments at August 31 consist of the following:

	Allocation	
	2020	**2019**
Cash and cash equivalents	5%	1%
Fixed income	7%	6%
Public equities	23%	26%
Real estate	8%	8%
Natural resources	4%	6%
Absolute return	19%	19%
Private equities	34%	34%
Total	100%	100%

7. Fair Value Measurements

Fair value is 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.

Accounting 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 are 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.

(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:

	2020			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 1,642,912	$ -	$ -	$ 1,642,912
Assets limited as to use, held by trustee:				
Cash and cash equivalents	92	-	-	92
Investments:				
Cash and cash equivalents	55,522	-	-	55,522
Mutual funds	624,910	-	-	624,910
Other	-	-	8,678	8,678
Investments	680,432	-	8,678	689,110
Total assets in the fair value hierarchy	$ 2,323,436	$ -	$ 8,678	2,332,114
Investments measured at NAV practical expedient:				
Investments in University managed pools				1,610,737
Total assets at fair value				$ 3,942,851
Liabilities				
Interest rate swap instruments	$ -	$ 353,292	$ -	$ 353,292

	2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 505,509	$ -	$ -	$ 505,509
Assets limited as to use, held by trustee:				
Cash and cash equivalents	11	-	-	11
Short term investments:				
Mutual funds	399,639	-	-	399,639
Investments:				
Cash and cash equivalents	62,205	-	-	62,205
Mutual funds	585,071	-	-	585,071
Public equities	3,761	-	-	3,761
Other	-	-	6,517	6,517
Investments	651,037	-	6,517	657,554
Total assets in the fair value hierarchy	$ 1,556,196	$ -	$ 6,517	1,562,713
Investments measured at NAV practical expedient:				
Investments in University managed pools				1,478,554
Total assets at fair value				$ 3,041,267
Liabilities				
Interest rate swap instruments	$ -	$ 316,796	$ -	$ 316,796

(in thousands of dollars)

7. Fair Value Measurements (Continued)

The table below sets forth a summary of the changes in the fair value of the Level 3 investments for the years ended August 31:

	2020	2019
Balance, beginning of year	$ 6,517	$ 896
Purchases	2,000	-
Transfers out to Level 1	(1,721)	(511)
Unrealized gain	1,882	6,132
Balance, end of year	$ 8,678	$ 6,517

During the year ended August 31, 2020, SHC purchased $2,000 investments toward a Level 3 security and no purchase was made for the year ended August 31, 2019. Transfers in and out of Level 3 include situations where observable inputs have changed and all transfer amounts are based on the fair value at the end of the fiscal year. Due to quoted market price data becoming available for the security, $1,721 and $511 were transferred from Level 3 to Level 1 for the years ended August 31, 2020 and 2019, respectively.

8. Property and Equipment

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

	2020	2019
Land and improvements	$ 76,495	$ 68,844
Buildings and leasehold improvements	3,799,636	1,773,365
Equipment	1,546,599	1,246,431
	5,422,730	3,088,640
Less: Accumulated depreciation	(2,069,898)	(1,824,105)
Construction-in-progress	293,180	2,426,480
Property and equipment, net	$ 3,646,012	$ 3,691,015

Depreciation and amortization expense totaled $257,725 and $190,283 for the years ending August 31, 2020 and 2019, respectively, and is included in the consolidated statements of operations and changes in net assets.

SHC has immaterial finance leases amounts as of August 31, 2020 and 2019.

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 $4,710 and $28,861 for the years ended August 31, 2020 and 2019, respectively.

ARO are capitalized and recorded in buildings and leasehold improvements. SHC recorded current period accretion expense of $3,469 and $3,353 in the consolidated statements of operations and changes in net assets of the years ended August 31, 2020 and 2019, respectively. ARO liability of $104,061 and $100,592 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2020 and 2019, respectively.

(in thousands of dollars)

9. Debt Obligations

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

	Face Value	Fiscal Years of Maturity	Effective Interest Rates 2020 / 2019	Outstanding Principal 2020	Outstanding Principal 2019
Fixed Rate Obligations					
Tax-Exempt					
2008 Series A-1 Refunding Revenue Bonds	$ 70,360	2021	3.84%/3.83%	$ 675	$ 900
2008 Series A-2 Refunding Revenue Bonds	104,100	2021-2022	3.76%/3.70%	1,450	1,775
2008 Series A-3 Refunding Revenue Bonds	84,165	2021-2022	3.76%/3.69%	1,175	1,450
2010 Series A Refunding Revenue Bonds	149,345	2021	3.84%/3.82%	6,760	13,195
2012 Series A Revenue Bonds	340,000	2028-2051	3.98%	340,000	340,000
2012 Series B Refunding Revenue Bonds	68,320	2021-2023	2.48%/2.42%	21,795	28,770
2015 Series A Revenue Bonds	100,000	2052-2054	4.10%	100,000	100,000
2017 Series A Refunding Revenue Bonds	454,200	2022-2041	2.84%/2.82%	454,200	454,200
2020 Series A Revenue Bonds	170,120	2050	2.70%	170,120	-
Taxable					
2018 Series Bonds	500,000	2049	3.80%	500,000	500,000
2020 Series Bonds	300,000	2030	3.31%	300,000	-
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042-2046	0.19%/1.16%	168,200	168,200
2012 Series C Revenue Bonds	60,000	2020	1.60%	-	60,000
2012 Series D Revenue Bonds	100,000	2021	0.67%/1.89%	100,000	100,000
2015 Series B Revenue Bonds	75,000	2024	0.65%/2.04%	75,000	75,000
Total principal amounts				2,239,375	1,843,490
Unamortized original issue premiums/discounts, net				115,728	103,390
Unamortized costs of issuance				(14,195)	(11,466)
Current portion of long-term debt				(116,045)	(114,235)
Debt subject to remarketing arrangements				(168,200)	(228,200)
Long-term portion, net of current portion				$ 2,056,663	$ 1,592,979

9. Debt Obligations (Continued)

Debt Issuance Activity

SHC borrows at tax-exempt rates through the California Health Facilities Financing Authority ("CHFFA"), a conduit issuer. Although CHFFA is the issuer, these tax-exempt securities are the obligation of, and payable solely by, SHC.

Payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) 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 some of its 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 $2,239,375 and $1,843,490 as of August 31, 2020 and 2019, respectively.

In April 2020, CHFFA, on behalf of SHC, issued fixed rate 2020 Series A Revenue Bonds ("2020 Series A") in the aggregate principal amount of $170,120 plus an original issue premium of $19,885. Proceeds of the 2020 Series A bonds were used to finance certain costs of the New Stanford Hospital project and refund the 2012 Series C bonds previously issued by CHFFA for the benefit of SHC.

In April 2020, SHC issued the 2020 Taxable Bonds in the amount of $300,000. The bonds bear interest at a coupon rate of 3.31% and mature on August 15, 2030. Proceeds were issued for general corporate purposes.

In May 2020, at SHC's request and subsequent to the end of the original index floating rate period, US Bank extended its ownership of the $100,000 2012 Series D bonds at a new index floating rate period.

In May 2020, SHC extended its $200,000 revolving line of credit facility until May 2021. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable London Interbank Offered Rate ("LIBOR") plus a specified spread. No amounts were outstanding as of August 31, 2020 or August 31, 2019. After August 31, 2020, SHC extended its revolving line of credit facility and reduced its amount, as described further in Note 17.

Variable Rate Debt

The 2008 Series B bonds are supported by SHC's self-liquidity and are classified as current liabilities. In the event SHC receives an optional tender notice of any of the 2008 Series B bonds, or if any bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, SHC has an obligation to purchase any remaining bonds. SHC maintains sufficient liquidity to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

The 2012 Series D and 2015 Series B bonds are in a monthly floating index mode and are directly placed with U.S. Bank. The 2012 Series D and 2015 Series B bonds are not subject to remarketing or tender until May 13, 2021 and June 28, 2024, respectively. The 2012 Series D bonds are classified as current liabilities while the 2015 Series B bonds are classified as long-term liabilities. SHC presently anticipates the 2012 Series D bonds will be remarketed to new holders in one of the interest rate modes available under the related bond indenture. In the event the 2012 Series D bonds are not remarketed on their mandatory tender date, then, as long as no default or event of default has occurred and is continuing, the 2012 Series D bonds will be repaid.

(in thousands of dollars)

9. Debt Obligations (Continued)

Variable Rate Debt (continued)
Scheduled principal payments on long-term debt are summarized below:

	Scheduled Maturities	Debt subject to Remarketing	Debt subject to Mandatory Tender (2012D and 2015B)	Total
2021	$ 16,045	$ 168,200	$ 100,000	$ 284,245
2022	15,505	-	-	15,505
2023	17,065	-	-	17,065
2024	13,475	-	75,000	88,475
2025	17,615	-	-	17,615
Thereafter	1,816,470	-	-	1,816,470
Total	$ 1,896,175	$ 168,200	$ 175,000	$ 2,239,375

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term debt includes debt subject to mandatory tender coming due in the next fiscal year and payments scheduled to be made in 2021. Debt subject to remarketing includes long-term debt obligations subject to short-term remarketing.

In 1998, SHC advance refunded its 1993 bonds in the amount of $89,520 by issuing the 1998 Series B bonds. In 2017, SHC advance refunded a portion of its 2008 Series A and 2010 Series A and B bonds in the amount of $481,185 by issuing the 2017 Series A bonds. All advance refunded bonds are considered extinguished. Any outstanding 2008 Series A and 2010 Series A and B bonds will be redeemed at par by the trustee on November 15, 2020 and 2021, respectively.

The following table summarizes the amounts of refunded bonds that remain outstanding:

	Amount Advance Refunded	Amount Outstanding as of August 31,	
	Total	2020	2019
1993 Series	$ 89,520	$ 2,220	$ 4,330
2008 Series A-1	65,610	65,610	65,610
2008 Series A-2	96,625	96,625	96,625
2008 Series A-3	78,090	78,090	78,090
2010 Series A	94,150	94,150	94,150
2010 Series B	146,710	146,710	146,710
Total	$ 570,705	$ 483,405	$ 485,515

Interest Rate Swap Agreements
SHC entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from variable rate debt interest risk. Under the terms of the current agreements, SHC pays a fixed interest rate, determined at inception, and receives a variable rate on the underlying notional principal amount based on a percentage of One Month LIBOR.

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)
SHC currently has nine outstanding interest rate exchange agreements.

The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2020:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
2008 Series A-1	66,425	11/01/2040	3.691%	70% 1-month LIBOR
2008 Series A-2	102,775	11/15/2051	3.999%	67% 1-month LIBOR
2008 Series A-3	84,600	11/15/2051	3.902%	67% 1-month LIBOR
Subtotal LIBOR Swaps	253,800			
2012 Series A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
2012 Series B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
2012 Series C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	$ 574,700			

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 become invalid, or the structure of the bonds is changed, resulting in de-designation of the hedge. Over the years, 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:

	Fair Value		
Description	2020	2019	Balance Sheet Location
Fixed Payment Swaps	$ 353,292	$ 316,796	Swap liabilities

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)
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:

	Unrealized Loss		
Description	2020	2019	Statement of Operations Location
Fixed Payment Swaps	$ 36,496	$ 134,269	Swap interest and change in value of swap agreements

SHC has two swap agreements which require mutual posting of collateral by SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount. There was $52,254 and $31,634 of cash collateral posted by SHC at August 31, 2020 and 2019, respectively.

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
Total bond interest expense was $64,545 and $39,060 for the years ended August 31, 2020 and 2019, respectively. Interest capitalized as a cost of construction was $4,710 and $28,861 for the years ended August 31, 2020 and 2019, respectively.

Since fiscal year 2018, SHC has been recording all swap net settlements in swap interest and change in value of swap agreements on the consolidated statements of operations and changes in net assets.

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 employees, totaling $114,075 and $101,847, UHA employer contributions totaling $4,420 and $4,364 and SHC-VC employer contributions totaling $5,695 and $5,872, for the years ended August 31, 2020 and 2019, 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 SHC 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 LPCH employees. SHC received $143 and $128 in cash for the years ending August 31, 2020 and 2019, respectively, which represented the current year pension expense related to LPCH 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.

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, 2020 and 2019, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $113,212 and $101,093 as of August 31, 2020 and 2019, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $84,772 and $76,491 as of August 31, 2020 and 2019, respectively, which represents the liability for SHC employees excluding LPCH employees.

(in thousands of dollars)

10. Retirement Plans (Continued)

Postretirement Medical Benefit Plan (continued)

The change in pension and other postretirement 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	
	2020	2019	2020	2019
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 193,642	$ 180,930	$ -	$ -
Actual return on plan assets	26,157	23,736	-	-
Employer contributions	1,917	-	4,430	5,033
Participants contributions	-	-	1,284	1,324
Benefits paid	(10,270)	(9,681)	(5,839)	(6,357)
Medicare subsidies received	-	-	125	-
Expenses paid	(694)	(1,046)	-	-
Adjustments	-	(297)	-	-
Fair value of plan assets at end of year	$ 210,752	$ 193,642	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 210,690	$ 187,580	$ 101,093	$ 77,544
Service cost	1,546	1,197	3,829	2,235
Interest cost	5,907	7,416	2,704	2,928
Participants contributions	-	-	1,284	1,324
Benefits paid	(10,270)	(9,681)	(5,839)	(6,357)
Medicare subsidies received	-	-	125	-
Expenses paid	(694)	(1,046)	-	-
Plan amendments	-	-	5,148	13,767
Actuarial loss	12,228	25,224	4,868	9,652
Benefit obligation at end of year	$ 219,407	$ 210,690	$ 113,212	$ 101,093
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (8,655)	$ (17,048)	$ (113,212)	$ (101,093)
Net benefit liability recognized	$ (8,655)	$ (17,048)	$ (113,212)	$ (101,093)
Amounts recognized in consolidated balance sheets:				
Current liabilities	$ -	$ -	$ (7,266)	$ (6,965)
Noncurrent liabilities	(8,655)	(17,048)	(105,946)	(94,128)
Net benefit liability recognized	$ (8,655)	$ (17,048)	$ (113,212)	$ (101,093)
Amounts recognized in net assets without donor restrictions:				
Prior service cost	$ -	$ -	$ (20,292)	$ (17,704)
Net (loss) gain	(58,709)	(65,223)	(1,106)	4,013
Net assets without donor restrictions	$ (58,709)	$ (65,223)	$ (21,398)	$ (13,691)

The estimated net loss for the Staff Pension Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $2,408.

The estimated net loss and prior service cost for the Postretirement Medical Benefit Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are $68 and $2,976, respectively.

(in thousands of dollars)

10. Retirement Plans (Continued)

Postretirement Medical Benefit Plan (continued)
The accumulated benefit obligation for the Staff Pension Plan was $217,551 and $208,922 as of August 31, 2020 and 2019, respectively.

	Staff Pension Plan Obligations	
	2020	2019
Service cost:	$ 1,546	$ 1,197
Periodic benefit expense	1,546	1,197
Non-operating:		
Interest cost	5,907	7,416
Expected return on plan assets	(9,692)	(9,742)
Amortization of net loss	2,277	1,361
Non-operating periodic benefit cost	(1,508)	(965)
Total net periodic benefit cost	$ 38	$ 232

	Postretirement Medical Benefits	
	2020	2019
Service cost:	$ 3,829	$ 2,235
Periodic benefit expense	3,829	2,235
Non-operating:		
Interest cost	2,704	2,928
Amortization of prior service cost	2,560	1,426
Amortization of net gain	(251)	(924)
Non-operating periodic benefit cost	5,013	3,430
Total net periodic benefit cost	$ 8,842	$ 5,665

Changes recognized in net assets without donor restrictions for the years ended August 31 include the following components:

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2020	2019	2020	2019
Net (gain) loss arising during period	$ (4,237)	$ 11,525	$ 4,868	$ 9,652
New prior service cost	-	-	5,148	13,767
Amortizations				
Prior service cost	-	-	(2,560)	(1,426)
(Loss) gain	(2,277)	(1,361)	251	924
Total recognized in net assets without donor restrictions	$ (6,514)	$ 10,164	$ 7,707	$ 22,917
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (6,476)	$ 10,396	$ 16,549	$ 28,582

(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	
	2020	2019	2020	2019
Weighted-average assumptions				
Discount rate	2.33%	2.88%	2.18%	2.77%
Rate of compensation increase	3.00%	3.00%	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	
	2020	2019	2020	2019
Weighted-average assumptions				
Discount rate	2.88%	4.07%	2.77%	3.96%
Expected return on plan assets	5.50%	5.50%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	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. 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 5.5% as the assumption for the expected return on plan assets.

To determine the accumulated postretirement benefit obligation as of August 31, 2020, a 6.0% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2020, declining gradually to 4.5% by 2038, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated postretirement benefit obligation by $1,918 and the aggregate service and interest cost by $102. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated postretirement benefit obligation by $1,912 and the aggregate service and interest cost by $109.

Plan Assets
SHC's Staff Pension Plan weighted-average asset allocations as of the measurement date August 31, 2020 and 2019, respectively, by asset category are as follows:

Asset Category	2020	2019
Debt securities	63%	60%
Equity securities	37%	40%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Assets (continued)
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:

	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 673	$ -	$ -	$ 673
Mutual funds	210,079	-	-	210,079
Total Plan assets at fair value	$ 210,752	$ -	$ -	$ 210,752

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 483	$ -	$ -	$ 483
Mutual funds	193,159	-	-	193,159
Total Plan assets at fair value	$ 193,642	$ -	$ -	$ 193,642

Plan Investments
The investment objective of the Staff Pension Plan ("Plan") is to efficiently balance expected long-term growth of funding status with prudent management of funding status volatility within the limits of Section 404 of the Employee Retirement Income Security Act. To ensure that the Plan meets its overall goal, the Plan seeks to achieve and maintain a fully funded position at an acceptable level of cost and risk as defined in the investment policy statement for the Plan's investment portfolio. This portfolio is managed by an investment manager hired on behalf of the Plan and its beneficiaries.

When funded status is low, as measured in the ratio of the Plan asset value to the Plan liability value, the primary Plan objective will be to reach full funding and consequently generating return, in excess of Plan liability, as appropriate within the constraints of the overall risk tolerance. As the funded status rises, the Plan's objective moves toward maintaining that funded level. This change in objective will lead to less focus on generating return and more focus on managing funded status volatility through liability hedging strategies. To aid in this transition, the Plan has adopted a glide path as seen below. If any asset class (equity or fixed income) within the Portfolio is +/- 5 percentage points from its target weighting, the investment manager acts within a reasonable period of time to evaluate deviation from these ranges and rebalance the portfolio accordingly.

Funded Ratio	Return Seeking Assets (Equity)	Liability Hedging Assets (Fixed Income)
Below 95%	40%	60%
95-99.9%	35%	65%
100-104.9%	30%	70%
105% and above	20%	80%

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Investments (continued)
Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of the portfolio is prohibited. Accordingly, Plan assets are strategically allocated across broadly defined financial asset classes. These asset classes are equity (domestic and international), fixed income (of various durations, credit quality, and ability to hedge pension liability), and cash. Except for fixed income investments explicitly guaranteed by the US government, no single (i.e. non-pooled) investment security shall represent more than 5% of total Plan assets. At the time of purchase, the minimum average credit quality of fixed income investments shall be Standard & Poor's BBB rating or Moody's Baa rating or higher. Cash investments, if any, are used to fund liquidity needs or to facilitate a planned transition into a particular investment within an asset class. The investment policy prohibits the purchasing of securities on margin, executing short sales or purchasing or selling derivative securities for speculation or leverage.

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 risks mentioned above that increases the exposure of the loss of Plan assets unnecessarily. As of August 31, 2020, SHC did not have concentrations of risk.

Expected Contributions
SHC expects to make no contributions to its Staff Pension Plan for both SHC and LPCH employees during the fiscal year ending August 31, 2021. SHC expects to contribute $5,578 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2021.

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

		Postretirement Medical Benefits	
	Pension Benefits	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2021	$ 11,560	$ 7,266	$ 7,537
2022	11,873	7,629	7,756
2023	12,068	7,709	7,830
2024	12,210	7,663	7,778
2025	12,311	7,632	7,740
2026 - 2030	61,062	38,773	39,198

(in thousands of dollars)

11. Net Assets Without Donor Restrictions

The changes in consolidated net assets without donor restrictions attributable to the controlling financial interest of SHC and the noncontrolling interests, for the years ended August 31, are as follows:

	Total	Controlling Interest	Noncontrolling Interests
Balance as of September 1, 2018	$ 3,304,125	$ 3,285,398	$ 18,727
Excess of revenues over expenses	364,460	357,087	7,373
Other changes in net assets without donor restrictions	(122,710)	(123,521)	811
Balance as of August 31, 2019	3,545,875	3,518,964	26,911
Excess of revenues over expenses	190,537	190,929	(392)
Noncontrolling capital distributions	(2,400)	-	(2,400)
Other changes in net assets without donor restrictions	459,893	459,566	327
Balance as of August 31, 2020	$ 4,193,905	$ 4,169,459	$ 24,446

12. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at August 31:

	2020	2019
Subject to expenditure for specified purpose:		
Other	$ 49,534	$ 46,447
Pledges receivable	47,396	62,396
Plant facilities	5,364	543,577
Total subject to expenditure for specified purpose	102,294	652,420
Subject to restriction in perpetuity:		
Accumulated appreciation	16,616	14,922
Endowment	14,633	9,431
Total subject to restriction in perpetuity	31,249	24,353
Total net assets with donor restrictions	$ 133,543	$ 676,773

Endowments
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 endowments (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

(in thousands of dollars)

12. Net Assets With Donor Restrictions (Continued)

Endowments (continued)
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.

Changes in SHC's endowment for the years ended August 31, 2020 and 2019 are as follows:

	2020	2019
Endowment net assets, beginning of year	$ 24,353	$ 22,215
Investment return:		
Investment income	748	599
Mark to market adjustments	1,465	702
Total investment return	2,213	1,301
Contributions	5,202	1,198
Expenditures	(519)	(361)
Endowment net assets, end of year	$ 31,249	$ 24,353

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by California UPMIFA, as of August 31, 2020 and 2019 are as follows:

	2020	2019
Clinical services	$ 6,048	$ 5,882
Education	7,983	7,380
Indigent care and other	17,218	11,091
Total endowment classified as net assets with donor restrictions	$ 31,249	$ 24,353

All of SHC's endowment, totaling $31,249 and $24,353 at August 31, 2020 and 2019, respectively, are invested in the MP. The original 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.

12. Net Assets With Donor Restrictions (Continued)

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.

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 $875,369 and $808,567 for the years ended August 31, 2020 and 2019, respectively.

Services provided by the University and other SoM non-physician services include telecommunications, transportation, utilities, and certain administrative services, such as legal and internal audit. Total costs incurred by SHC were $131,791 and $122,615 for the years ended August 31, 2020 and 2019, 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 $1,598 and $2,211 for the years ended August 31, 2020 and 2019, 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 13 years total $13,830. Annual service fees range from approximately $957 for the year ending August 31, 2021 to $646 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, security, and information technology. 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 $77,545 and $48,402 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $5,443 and $5,832 for the years ended August 31, 2020 and 2019, 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, 2020 and 2019. The remaining amount included in other assets in the consolidated balance sheets is $3,379 and $3,487 as of August 31, 2020 and 2019, respectively.

For the years ended August 31, 2020 and 2019, SHC transferred $98,367 and $120,090, respectively, to the University. These funds are used by the University to support the academic mission of the SoM and its initiatives as well as the general support of the academic community and physical plant. Total transfers of $98,367 and $120,090 for the years ended August 31, 2020 and 2019, respectively, are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

SHC also received equity transfers of $162 and sent equity transfers of $316 during the years ended August 31, 2020 and 2019, respectively, which represented restricted gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC patient care services and the New Stanford Hospital and are included in changes in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

Transactions with Companies of University Board Members
Certain Board Members of the University are executives of companies doing business with SHC. Material transactions are with Goldman Sachs and primarily relate to interest rate swap agreements. As of August 31, 2020 and 2019, SHC had an interest rate swap liability to Goldman Sachs of $86,160 and $77,826, respectively, and posted collateral of $16,810 and $5,440 for the years ended August 31, 2020 and 2019, respectively, for the same interest rate swap agreement. Additionally, SHC made net swap payments to Goldman Sachs of $3,247 and $2,482 for the years ended August 31, 2020 and 2019, respectively.

Transactions with LPCH
SHC and LPCH share certain departments, including facilities design and construction, materials management, Managed Care contracting, compliance 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 $38,157 and $38,175 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

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 $38,207 and $38,375 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with LPCH (continued)
Other services provided by SHC include services provided by interns and residents, building maintenance, IT and utilities. Reimbursement of these services totaled $41,418 and $41,882 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

14. Leases

Leasing Activities-Lessee
SHC's lease portfolio primarily consists of operating and finance leases for real estate, personal property, and equipment under non-cancelable lease agreements expiring at various dates. The amounts in the tables below do not reflect payments for leases that have not yet commenced in the amount of $23,934.

The following table presents the components of SHC lease expenses and the classification of such expenses in SHC consolidated statements of operations and changes in net assets for the year ended August 31, 2020:

Component of Lease Cost	Classification on Consolidated Statements of Operations and Changes in Net Assets	2020
Operating lease costs	Other	$ 79,979
Short term lease costs	Other	9,048
Variable lease costs	Other	17,937
Finance lease expense:		
Amortization of leased assets	Depreciation and amortization	70
Interest on lease liabilities	Interest	4
Sublease income	Other revenue	(5,732)
Total		$ 101,306

The following table presents the supplemental cash flow information related to leases for the year ended August 31, 2020:

	2020
Operating cash flows from operating leases	$ 82,180
Operating cash flows from finance leases	4
Financing cash flows from finance leases	73
Total	$ 82,257

The right-of-use assets obtained in exchange for new lease obligations for year ended August 31, 2020 is $96,491.

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)
The following presents the weighted-average lease terms and discount rates for operating and finance leases as of August 31, 2020:

Weighted Average remaining lease term:	
Operating leases	5.77 years
Finance leases	2.17 years
Weighted Average discount rate:	
Operating leases	2.08%
Finance leases	1.79%

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to August 31, 2020:

Year Ending August 31,	Operating	Finance	Total
2021	$ 82,897	$ 77	$ 82,974
2022	79,527	77	79,604
2023	72,731	13	72,744
2024	48,588	-	48,588
2025	28,612	-	28,612
Thereafter	78,858	-	78,858
Total lease payments	391,213	167	391,380
Less Interest	(28,258)	(3)	(28,261)
Total lease liabilities	362,955	164	363,119
Less current lease liabilities	(75,991)	(75)	(76,066)
Total non-current lease liabilities	$ 286,964	$ 89	$ 287,053

The following table includes the future maturities of minimum rental payments that are required to be paid under all non-cancelable operating leases and finance leases obligations for periods subsequent to August 31, 2019, prior to the adoption of ASC Topic No. 842:

Year Ending August 31,	Operating	Finance
2021	$ 79,271	$ 107
2022	73,406	107
2023	70,468	107
2024	64,352	30
2025	40,570	-
Thereafter	73,019	-
Total	$ 401,086	351
Less amount representing interest		(26)
Subtotal		325
Current portion		(93)
Long-term portion, net of current portion		$ 232

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)
Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the year ended August 31, 2019 was $122,587.

Leasing Activities-Lessor
SHC leases space in its medical office buildings to others under non-cancelable operating lease arrangements.

The following table includes the future maturities of lease payments for operating leases that will be received for periods subsequent to August 31, 2020:

Year Ending August 31,	2020
2021	$ 7,219
2022	5,229
2023	2,485
2024	1,706
2025	590
Thereafter	9,004
Total	$ 26,233

The following table includes the future maturities of minimum lease payments that will be received under all non-cancellable operating leases that will be received for periods subsequent to August 31, 2019:

Year Ending August 31,	2019
2020	$ 5,591
2021	5,513
2022	4,934
2023	2,449
2024	1,705
Thereafter	9,594
Total	$ 29,786

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 $20,422, which are required as security for the workers' compensation self-insurance arrangements and $2,210 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, 2020.

15. Commitments and Contingencies (Continued)

At August 31, 2020, SHC had contractual obligations of approximately $155,577 primarily related to the construction of the new hospital and other capital projects and approximately $485,206 to support SHC's operations, such as maintenance, food services, valet services and other purchased services.

Effective December 23, 2014, SHC entered into a five-year agreement with a global 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 fixed fees for one-time transition services, ongoing recurring and event-based fees for information technology services, and additional fees plus expenses for project work agreed upon pursuant to work orders agreement. Effective April 1, 2019, SHC extended this contract for an additional five-year term through March 31, 2024, with no limit on renewals. SHC anticipates it will spend approximately $36,000 over the extended term of the agreement.

Effective May 30, 2019, SHC entered into an agreement for the option to purchase land and buildings ("Block E") from the University. Block E consists of approximately six acres of land and office buildings located in Redwood City, California. The total purchase price is $75,000. Under the terms of the agreement, SHC may exercise options up to four years to purchase Block E and the option price will be four equal installments of $2,250 non-refundable deposits with the first being due three days after the effective date of the agreement, and the last on September 1, 2021. In fiscal year 2019, SHC paid the first $2,250 non-refundable deposit. In fiscal year 2020, SHC exercised its option to purchase Block E and paid the remaining three deposits, plus the final balance due to the University. In accordance with ASC 805-50-30-5, SHC recorded the difference between proceeds transferred of $75,000 and the University's carrying amount of Block E of $17,400 as an equity transfer to the University in the amount of $57,600. SHC intends to initially develop a 228,000 square foot medical clinic on Block E.

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. Government activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers 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.

As with many medical centers across the country, information security and privacy is a growing risk area based on developments in the law and expanding mobile technology practices. SHC has policies, procedures, and training in place to safeguard protected information, but select incidents have occurred in the past and may occur in the future involving potential or actual disclosure of such information (including, for example, certain identifiable information relating to patients or research participants). In most cases, there has been no evidence of unauthorized access to, or use/disclosure of, such information, yet laws may require reporting to potentially affected individuals and federal and state governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite SHC for a deficiency or regulatory violation, and/or require payment of fines, corrective action, or both. California law also allows a private right to sue for a breach of medical information. The cost of such possible consequences has not been material to date to SHC, and management does not believe that any future consequences of these incidents will be material to the consolidated financial statements.

15. Commitments and Contingencies (Continued)

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 32%. 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 for structural performance. 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 between 2020 and 2030.

The California Office of Statewide Health Planning and Development has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards through 2030 and beyond. Certain patient care activities are located in three existing buildings that can be used for inpatient care only until January 1, 2026, at which time, they must be removed from general acute care service. However, these three buildings have utility system configurations that must be modified to support inpatient functions until they are removed from acute care service. Work has been completed to remedy the utility infrastructure deficiencies. The opening of the New Stanford Hospital in 2019 will allow a substantial reduction in the number of inpatient beds occupying non-compliant structures. Work is in progress to construct additional inpatient beds by 2026 to completely relocate all inpatients from non-compliant structures.

SHC also has buildings that do not meet the structural seismic safety standards for 2020 compliance, but none of those buildings have any direct inpatient care. SHC received approval from the State of California via Senate Bill 90 to extend the structural compliance deadline for these buildings through the end of 2019, and subsequently to remove those buildings from the roster of hospital structures by January 1, 2020. All required work was completed and SHC is working with the State to formalize the re-classification of the non-compliant structures as non-hospital buildings.

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 a 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 $2.105 billion. As of August 31, 2020, SHC has capitalized $2,097 million, exclusive of $185 million in capitalized interest, related to this project. SHC's portion of the Renewal Project construction was completed in Fall 2019.

Commencing in October 2020, major renovations ("300P Renewal") began on the D Pod patient care unit, which over the next two years, will modernize the four floors for all private patient rooms, enlarged bathrooms, and accommodation for rooming-in of family. Also this Fall, renovation will commence on the former adult emergency department to convert a large portion of it for a dedicated pediatric emergency service. Other major renovations planned for 2021 include an overall modernization of the 300P operating room suite, expansion of the post-anesthesia care to double in size, and significant upgrades to various areas of public spaces.

15. Commitments and Contingencies (Continued)

Over the course of the next six years, additional renovations are planned for the E Pod and F Pod patient care units, and new construction of 58 beds in extension towers. These improvements will enable the complete relocation of inpatient units that remain in the 1959-era portion of the hospital, and fulfill the seismic safety mandate to have all inpatient beds located in compliant structures. As of August 31, 2020, approximately $69 million, which was primarily for design and construction, was recorded to construction in progress. Estimated cost of the 300P Renewal program is approximately $1.2 billion.

Coronavirus Disease ("COVID-19")
In response to the economic impact of COVID-19, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was enacted by Congress and was subsequently signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for business and individuals. SHC suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March through early May in 2020 due to COVID-19. Under certain provisions in the CARES Act, SHC recognized benefits totaling $135 million in its consolidated statement of operations for the year ended August 31, 2020. The $135 million benefit is comprised of $125 million in relief funds received and reported in other operating revenue and $10 million for the employee retention tax credit recorded as a reduction of salaries, wages and benefit expenses. SHC also deferred payment of $46 million for the employer portion of the Social Security payroll tax as allowed by the CARES Act. The employee retention tax credit is claimed against the employer portion of the Social Security tax. The impact of the payroll tax deferral and employee retention tax credit is a net liability of $36 million as of August 31, 2020 and is included in the other noncurrent liabilities on the accompanying consolidated balance sheet as of that date. Fifty percent of the deferred tax credit must be paid by December 31, 2021 with the remainder by December 31, 2022.

SHC recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available at August 31, 2020. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes. Subsequent to SHC's fiscal year end, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements expanded the relief fund eligibility and updated reporting requirements. This constitutes a change from the terms and conditions previously communicated in March 2020, which indicated that "any reasonable method" could be utilized to calculate lost revenues attributable to COVID-19. Due to these new reporting requirements and the ongoing changes in the compliance requirements, there is at least a reasonable possibility that amounts recorded under CARES Act provider relief fund by SHC may change in future periods.

Under the CARES Act, SHC also received $397 million in advanced payments from CMS in fiscal year 2020 which is on the accompanying consolidated balance sheet as of August 31, 2020. CMS has indicated that it will begin recouping these advance payments against future Medicare claims for services that are provided during the recoupment period.

There are other government funding and relief sources, in addition to other components of the CARES Act not mentioned, that SHC continues to assess for eligibility. The possible impact of these funding and relief sources are not reflected in the financial performance through August 31, 2020.

(in thousands of dollars)

16. Functional Expenses

Expenses are reported in their natural classification in the functional expense categories. All expenses that are not determined to be management and general or fundraising are classified as patient services. Certain cost centers are purely administrative and not directly related to patient care; therefore, the expenses from these cost centers are categorized as management and general. Fundraising expenses include cost centers solely dedicated to fundraising as well as allocation of employees who are involved with fundraising activities. Certain Informational and Technology costs support more than one functional expense category. A percentage of their expenses are allocated to management and general based on the most recent audited annual Office of Statewide Health Planning and Development Report.

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

	2020			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,312,459	$ 234,959	$ 841	$ 2,548,259
Professional services	13,636	24,827	-	38,463
Supplies	810,600	9,803	-	820,403
Purchased services	1,358,977	86,753	13,229	1,458,959
Depreciation and amortization	236,553	21,172	-	257,725
Interest	68,014	5	-	68,019
Other	354,580	105,903	-	460,483
Expense recoveries from related parties	(80,782)	(24,997)	-	(105,779)
Total	$ 5,074,037	$ 458,425	$ 14,070	$ 5,546,532

	2019			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,082,191	$ 219,615	$ 593	$ 2,302,399
Professional services	15,335	25,965	-	41,300
Supplies	713,896	13,240	-	727,136
Purchased services	1,225,237	112,165	13,306	1,350,708
Depreciation and amortization	171,008	19,275	-	190,283
Interest	42,425	6	-	42,431
Other	375,787	107,471	-	483,258
Expense recoveries from related parties	(93,465)	(37,335)	-	(130,800)
Total	$ 4,532,414	$ 460,402	$ 13,899	$ 5,006,715

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 2, 2020, the date the consolidated financial statements were issued.

Subsequent to SHC's fiscal year end, HHS published new reporting requirements for recipients of the CARES Act fund. SHC continues to evaluate the impact on the organization.

In November 2020, SHC extended its revolving line of credit facility to November 2021 and reduced its size to $150,000.

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Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries as of August 31, 2020 and 2019 and for the years then ended and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

December 2, 2020

Stanford Health Care
Consolidating Balance Sheet
August 31, 2020 and 2019
(in thousands of dollars)

	FY 2020											FY 2019
	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total	Aug 31, 2019
Assets												
Current assets:												
Cash and cash equivalents	$ 1,573,391	$ 20,001	$ 506	$ -	$ 26,741	$ 10,130	$ 8,267	$ -	$ 3,876	$ -	$ 1,642,912	$ 505,509
Assets limited as to use, held by trustee	92	-	-	-	-	-	-	-	-	-	92	11
Short term investments	-	-	-	-	-	-	-	-	-	-	-	399,639
Patient accounts receivable, net	592,761	22,858	36,529	-	-	2,194	-	-	-	-	654,342	685,425
Other receivables	113,083	3,016	4,337	918	31,902	2,424	9,028	50	2,695	(1,716)	165,737	93,529
Inventories	115,472	1,342	6,748	1,520	-	-	-	-	-	-	125,082	69,831
Prepaid expenses and other	68,439	14,412	23,793	229	265	583	782	58	48	(22)	108,587	84,524
Due from related parties	1,064	3,164	60,165	37,850	940	-	-	51	8,051	(111,285)	-	-
Total current assets	2,464,302	64,793	132,078	40,517	59,848	15,331	18,077	159	14,670	(113,023)	2,696,752	1,838,468
Investments	621,160	-	-	-	62,811	-	5,139	-	-	-	689,110	657,554
Investments at equity	110,326	-	7,245	-	(596)	-	-	-	-	-	116,975	97,963
Investments in University managed pools	1,558,829	-	-	-	51,908	-	-	-	-	-	1,610,737	1,478,554
Property and equipment, net	3,436,353	26,872	174,362	5,197	447	2,734	-	47	-	-	3,646,012	3,691,015
Right of use lease assets	294,366	48,689	24,887	13,513	1,489	1,658	-	1,026	-	(44,048)	341,580	-
Other assets	108,567	3,419	3,872	-	-	-	66	17	330	(57,738)	58,533	78,360
Investments in related entities	515,545	4,549	-	-	-	-	-	-	-	(520,094)	-	-
Total assets	$ 9,109,448	$ 148,322	$ 342,444	$ 59,227	$ 175,907	$ 19,723	$ 23,282	$ 1,249	$ 15,000	$ (734,903)	$ 9,159,699	$ 7,841,914
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accrued liabilities	$ 805,786	$ 28,369	$ 56,769	$ 4,075	$ 679	$ 225	$ 1,350	$ 120	$ 10,900	$ (24)	$ 908,249	$ 557,284
Accrued salaries and related benefits	237,641	33,035	16,267	(199)	599	-	-	68	-	-	287,411	275,099
Due to related parties	156,202	-	4,648	1,237	-	162	44	903	217	(111,285)	52,128	103,779
Third-party payor settlements	55,143	-	(31)	-	-	-	-	-	-	-	55,112	29,918
Current portion of long-term debt	116,045	-	1,713	-	-	-	-	-	-	(1,713)	116,045	114,235
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200	228,200
Operating lease liabilities, current	61,091	13,174	6,844	2,942	274	730	-	241	-	(9,230)	76,066	-
Self-insurance reserves and other	28,651	2,198	2,639	632	24,066	-	-	-	-	-	58,186	59,424
Total current liabilities	1,628,759	76,776	88,849	8,687	25,618	1,117	1,394	1,332	11,117	(122,252)	1,721,397	1,367,939
Self-insurance reserves and other, net of current portion	122,654	-	3,106	67	84,798	-	14,233	-	-	-	224,858	174,040
Swap liabilities	353,292	-	-	-	-	-	-	-	-	-	353,292	316,796
Operating lease liabilities, non-current	252,633	37,112	19,365	10,728	1,389	930	-	800	-	(35,904)	287,053	-
Other long-term liabilities	168,556	2,246	66,293	(157)	48	-	-	-	-	(56,653)	180,333	150,464
Pension liability	8,655	-	-	-	-	-	-	-	-	-	8,655	17,048
Long-term debt, net of current portion	2,056,663	-	-	-	-	-	-	-	-	-	2,056,663	1,592,979
Total liabilities	4,591,212	116,134	177,613	19,325	111,853	2,047	15,627	2,132	11,117	(214,809)	4,832,251	3,619,266
Net assets:												
Net assets without donor restrictions:												
Stanford Health Care	4,384,646	32,188	164,816	39,902	49,784	10,606	4,549	(883)	3,883	(520,032)	4,169,459	3,518,964
Noncontrolling interests	-	-	-	-	14,270	7,070	3,106	-	-	-	24,446	26,911
Total net assets without donor restrictions	4,384,646	32,188	164,816	39,902	64,054	17,676	7,655	(883)	3,883	(520,032)	4,193,905	3,545,875
Net assets with donor restrictions	133,590	-	15	-	-	-	-	-	-	(62)	133,543	676,773
Total net assets	4,518,236	32,188	164,831	39,902	64,054	17,676	7,655	(883)	3,883	(520,094)	4,327,448	4,222,648
Total liabilities and net assets	$ 9,109,448	$ 148,322	$ 342,444	$ 59,227	$ 175,907	$ 19,723	$ 23,282	$ 1,249	$ 15,000	$ (734,903)	$ 9,159,699	$ 7,841,914

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Years Ended August 31, 2020 and 2019
(in thousands of dollars)

	FY 2020											FY 2019
	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total	Aug 31, 2019
Operating revenues and other support:												
Net patient service revenue	$ 4,603,194	$ 260,218	$ 295,099	$ -	$ -	$ 10,397	$ -	$ -	$ -	$ (27,970)	$ 5,140,938	$ 5,113,052
Premium revenue	497	74,400	-	-	-	-	-	-	50,152	(8,078)	116,971	106,130
Grants - COVID-19	102,438	7,637	14,476	-	-	-	-	-	-	-	124,551	-
Other revenue	135,016	12,878	5,793	69,220	38,587	85	1,890	2,421	-	(91,597)	174,293	157,757
Net assets released from restrictions used for operations	10,667	-	156	-	-	-	-	-	-	-	10,823	13,063
Total operating revenues and other support	4,851,812	355,133	315,524	69,220	38,587	10,482	1,890	2,421	50,152	(127,645)	5,567,576	5,390,002
Operating expenses:												
Salaries and benefits	2,184,182	130,445	183,506	34,578	9,698	2,245	-	3,475	286	(156)	2,548,259	2,302,399
Professional services	30,141	4,002	1,997	36	1,078	977	601	33	843	(1,245)	38,463	41,300
Supplies	733,603	54,304	39,836	15,153	51	76	-	19	4,894	(27,533)	820,403	727,136
Purchased services	1,226,091	238,591	34,790	4,718	244	918	-	278	59,428	(106,099)	1,458,959	1,350,708
Depreciation and amortization	228,450	10,783	16,292	1,378	225	579	-	18	-	-	257,725	190,283
Interest	67,883	4	2,114	3	2	-	-	-	-	(1,987)	68,019	42,431
Other	374,632	30,544	39,463	7,013	28,245	1,663	360	436	925	(22,798)	460,483	483,258
Expense recoveries from related parties	(108,842)	(26,641)	-	-	-	-	-	(1,461)	-	31,165	(105,779)	(130,800)
Total operating expenses	4,736,140	442,032	317,998	62,879	39,543	6,458	961	2,798	66,376	(128,653)	5,546,532	5,006,715
Income (loss) from operations	115,672	(86,899)	(2,474)	6,341	(956)	4,024	929	(377)	(16,224)	1,008	21,044	383,287
Interest and investment income	43,625	90	41	-	1,788	-	323	-	93	(1,987)	43,973	42,904
Earnings on equity method investments	19,132	-	460	-	-	-	-	-	-	-	19,592	8,315
Change in value of University managed pools and other	157,603	-	-	-	4,117	-	-	-	-	-	161,720	76,748
Swap interest and change in value of swap agreements	(53,722)	-	-	-	-	-	-	-	-	-	(53,722)	(146,794)
Other components of net periodic benefit costs	(2,070)	-	-	-	-	-	-	-	-	-	(2,070)	-
Excess (deficiency) of revenues over expenses	280,240	(86,809)	(1,973)	6,341	4,949	4,024	1,252	(377)	(16,131)	(979)	190,537	364,460
Other changes in net assets without donor restrictions:												
Transfers to Stanford University	(98,367)	-	-	-	-	-	-	-	-	-	(98,367)	(120,090)
Transfers between SHC and SHC-VC	(6,915)	-	6,915	-	-	-	-	-	-	-	-	-
Change in net unrealized (loss) gain on investments	(2,580)	23	-	-	1,300	-	31	-	-	(23)	(1,249)	22,825
Net assets released from restrictions used for:												
Purchase of property and equipment	2,883	-	365	-	-	-	-	-	-	-	3,248	977
Purchase of property and equipment - New Stanford Hospital	555,219	-	-	-	-	-	-	-	-	-	555,219	-
Change in pension and postretirement liability	1,042	-	-	-	-	-	-	-	-	-	1,042	(26,422)
Noncontrolling capital contribution (distribution), net	-	95,911	-	-	-	(6,000)	-	-	16,100	(108,411)	(2,400)	-
Increase (decrease) in net assets without donor restrictions	731,522	9,125	5,307	6,341	6,249	(1,976)	1,283	(377)	(31)	(109,413)	648,030	241,750
Changes in net assets with donor restrictions:												
Transfers from (to) Stanford University	162	-	-	-	-	-	-	-	-	-	162	(316)
Contributions and other	21,587	-	497	-	-	-	-	-	-	-	22,084	31,079
Investment income	929	-	-	-	-	-	-	-	-	-	929	815
Gains on University managed pools	2,885	-	-	-	-	-	-	-	-	-	2,885	2,176
Net assets released from restrictions used for:												
Operations	(10,667)	-	(156)	-	-	-	-	-	-	-	(10,823)	(13,063)
Purchase of property and equipment	(2,883)	-	(365)	-	-	-	-	-	-	-	(3,248)	(977)
Purchase of property and equipment - New Stanford Hospital	(555,219)	-	-	-	-	-	-	-	-	-	(555,219)	-
(Decrease) increase net assets with donor restrictions	(543,206)	-	(24)	-	-	-	-	-	-	-	(543,230)	19,714
Increase (decrease) in net assets	188,316	9,125	5,283	6,341	6,249	(1,976)	1,283	(377)	(31)	(109,413)	104,800	261,464
Net assets, beginning of year	4,329,920	23,063	159,548	33,561	57,805	19,652	6,372	(506)	3,914	(410,681)	4,222,648	3,961,184
Net assets, end of year	$ 4,518,236	$ 32,188	$ 164,831	$ 39,902	$ 64,054	$ 17,676	$ 7,655	$ (883)	$ 3,883	$ (520,094)	$ 4,327,448	$ 4,222,648

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.

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APPENDIX C

SUMMARY OF MASTER INDENTURE DOCUMENTS

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TABLE OF CONTENTS

DEFINITIONS OF CERTAIN TERMS C-1

MASTER INDENTURE C-14

General C-14
Authorization and Issuance of Obligations C-14
Covenants C-15
Defaults and Remedies C-23
Supplements and Amendments C-28
Satisfaction and Discharge C-30

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 44 ..... C-30

General C-30
Payments on Obligation No. 44; Credits C-31
Prepayment of Obligation No. 44 ..... C-31
Registration, Number, Negotiability and Transfer of Obligations C-32
Right to Redeem C-32
Partial Redemption of Obligation No. 44 ..... C-32
Effect of Call for Redemption C-32
Ratification of Master Indenture; Agreement to Consent to Amendment of Percentages Specified in Events of Default; Consent to Amendment and Restatement of the Master Indenture C-33

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SUMMARY OF MASTER INDENTURE DOCUMENTS

The following is a summary of certain provisions of the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (as supplemented and amended from time to time pursuant to its terms, the "Master Indenture"), between Stanford Health Care, formerly known as Stanford Hospital and Clinics (the "Corporation"), and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), and the Supplemental Master Indenture for Obligation No. 44, dated as of April 1, 2021 ("Supplement No. 44") between the Corporation and the Master Trustee. 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 Offering Memorandum and is qualified in its entirety by reference to the full terms of the Master Indenture, and Supplement No. 44, as applicable. All capitalized terms used and not otherwise defined in this Offering Memorandum have the meanings assigned to such terms in the Indenture (as defined below) or, if not set forth in the Indenture, in the Master Indenture.

DEFINITIONS OF CERTAIN TERMS

Accountant means any independent certified public accountant or firm of independent certified public accountants selected by the Obligated Group Representative.

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

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

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.

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

Authorized Representative means with respect to each Obligated Group Member, the chair of its Governing Body, its president or chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of such Obligated Group Member by a Certificate of that Obligated Group Member signed by the chair of its Governing Body, its president or chief executive officer, or its chief financial officer and filed with the Master Trustee.

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

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).

Bonds means the Stanford Health Care Taxable Bonds, Series 2021, together with any Additional Bonds, authorized by, and at any time Outstanding pursuant to, the Indenture.

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

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

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

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.

Corporate Trust Office means the office of the Master Trustee at which its principal corporate trust business is conducted, 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 Health Care, formerly known as Stanford Hospital and Clinics, a nonprofit public benefit corporation duly organized and validly existing under the laws of the State of California, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

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

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

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

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

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Event of Default means any of the events of default specified in 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.

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

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

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

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

Financial 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 - 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 Trustee.

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).

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 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.

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.

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

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

(a) any revenue or expense of a Person which is not a Member of the Obligated Group;

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;

(c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;

(d) any gain or loss resulting from the extinguishment of Indebtedness;

(e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;

(f) any gain or loss resulting from any discontinued operations;

(g) any gain or loss resulting from pension terminations, settlements or curtailments;

(h) any unusual charges for employee severance;

(i) adjustments to the value of assets or liabilities resulting from changes in GAAP;

(j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value;

(k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, including, without limitation, any Financial Products Agreement;

(l) any Financial Product Extraordinary Payments, Financial Product Extraordinary Receipts, or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Products Agreement;

(m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets;

(n) changes in the share value of investment pools held or managed by Stanford University; or

(o) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

Indebtedness means any Guaranty (other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) and any obligation of any Obligated Group Member (1) for repayment of borrowed money, (2) with respect to finance leases or (3) under installment sale agreements; provided, however, that if more than one Obligated Group Member shall have incurred or assumed a Guaranty of a Person other than an Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under 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 of Trust, dated as of April 1, 2021, between the Corporation and U.S. Bank National Association, as trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture, the form of which is attached as Appendix D to this Offering Memorandum.

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

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

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

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

Irrevocable Deposit means an irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be in an amount sufficient to pay all or a portion

of the principal of, premium, if any, and interest on, any such Indebtedness (which would otherwise be considered Outstanding) as the same shall become due. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

Lease means that certain 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.

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

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

Master Indenture means that certain Amended and Restated Master Indenture of Trust, dated as of June 1, 2011, between Stanford Hospital and Clinics, currently known as Stanford Health Care, and the Master Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

Master 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.

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

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

Member means an Obligated Group Member.

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

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 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 all Obligated Group Members.

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 each of the Existing Obligations and any obligation of the Obligated Group 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. 44 means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 44.

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

Offering Memorandum means, the Offering Memorandum, dated April 21, 2021, relating to, and used in connection with the sale of, the Bonds, including all appendices thereto.

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

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

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 Health Care, 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 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.

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

Permitted Liens means and includes:

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

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

(c) Any Lien in favor of the Master Trustee securing all Outstanding Obligations equally and ratably;

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

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

(f) Any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;

(g) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

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

(i) Liens on Property received by any Obligated Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;

(j) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Member of the Obligated Group under federal or State of California statutes;

(k) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that the aggregate principal amount of such new Indebtedness does not exceed the aggregate principal amount of such refinanced Indebtedness;

(l) Liens granted by an Obligated Group Member to another Obligated Group Member;

(m) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions hereof;

(n) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;

(o) Liens on the Obligated Group Members' accounts receivable, provided that at the time of creation of such Lien, the Indebtedness secured by any such Lien shall not exceed thirty percent (30%) of the Obligated Group Members' net accounts receivable as shown on the most recent Financial Statements available at the time of incurrence of the Indebtedness to be secured by such Lien, and provided further that no more than thirty percent (30%) of the Obligated Group Members' net accounts receivable can be utilized for such securitization;

(p) Liens on revenues constituting rentals in connection with any other Lien permitted 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.

Principal Account means the fund by that name 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.

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, 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 Category means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

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

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.

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.

Responsible Officer means, with respect to the Master Trustee, the president, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any senior associate, any associate or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject.

Restricted Assets means any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or the payment of operating expenses.

S&P means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, 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 Trustee.

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.

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available SIFMA Swap Index shall refer to an index selected by the Obligated Group Representative, with the advice of an investment banking or financial services firm knowledgeable in health care matters.

Stanford University means The Board of Trustees of the Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California, and its successors and assigns.

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. 44 means that certain Supplemental Master Indenture for Obligation No. 44, dated as of April 1, 2021, 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 Corporation 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 - Covenants - "Merger, Consolidation, Sale or Conveyance."

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 - 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 and by virtue of the laws of the United States of America, or its successor, as Trustee under the Indenture, as provided in the Indenture.

United States Government Obligations means direct nonprepayable, noncallable 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 direct nonprepayable, noncallable obligations, the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such 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.

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.

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 Required

(a) Each Obligated Group Member, respectively, covenants and agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles and alternative risk management programs and self-insurance, and against such risks as are customarily insured against by other health care institutions in connection with the ownership and operation of health facilities of similar character and size in the State of California.

(b) The Obligated Group Representative shall employ an Insurance Consultant at least once every two (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.

Limitation 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:

(i) 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;

(ii) 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

(iii) 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-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:

(i) the total amount of such Short-Term Indebtedness shall not exceed 20% of Total Revenues; and

(ii) 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

(iii) 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 the Depository Bank. 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 thirty (30) days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

(b) Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by each Obligated Group Member at any time for any lawful purpose, except as 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 ten (10) days after receipt of such notice, the Master Trustee shall be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to the Depository Bank. Upon delivery of the Order with respect to the Gross Revenue Fund, exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided pursuant to the provisions of the Master Indenture described in 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 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 ninety (90) days of the retention of the Independent Consultant. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If either (i) the Obligated Group complies in all material respects with the reasonable recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection or (ii) the Obligated Group Representative determines that such recommendations are not in the best interests of the Obligated Group (and accordingly will not be followed) as evidenced by an Officer's Certificate filed with the Master Trustee, the Obligated Group will be deemed to have complied with the covenants set forth in 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:

(i) 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

(ii) 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

(iii) 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

(iv) 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

(v) 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

(vi) 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 Master 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:

(i) 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.

(ii) 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.

(iii) 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 sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of 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, Beneficial Owners, and all subsequent holders thereof 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 sixty (60) consecutive days.

(d) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary

case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(e) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default 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, Beneficial Owners, and all subsequent holders thereof 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:

(i) 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);

(ii) 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;

(iii) 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

(iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) 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:

(i) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(ii) Civil action upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(iv) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Obligations; and

(v) Enforcement of any other right or remedy of the Holders conferred by law or 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, Beneficial Owners, and subsequent owners thereof 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 and Remedies" (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 ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice, the term "Event of Default" for 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 by 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. 44

General

Supplement No. 44 provides for the issuance of Obligation No. 44 and provides the terms and form thereof. Obligation No. 44 further secures the obligation of the Corporation arising under and pursuant to the Indenture.

Payments on Obligation No. 44; Credits

Principal of and interest on Obligation No. 44 are payable in any coin or currency or United States Government Obligations 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. 44 described in (i), (ii), (iii) and (iv) below with respect to credits and as described under the caption "Prepayment of Obligation No. 44" below regarding prepayment, payments on the principal of and interest on Obligation No. 44 shall be made at the times and in the amounts specified in Obligation No. 44, by the Corporation (i) depositing or causing to be deposited 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. 44, specifying the amount paid, and identifying such payment as a payment on Obligation No. 44.

The Members shall receive credit for payment on Obligation No. 44, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 44 in an amount equal to moneys deposited in the Interest Account created under the Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 44;

(ii) On installments of principal of Obligation No. 44 in an amount equal to moneys deposited in the Principal Account created under the Indenture, to the extent such amounts have not previously been credited on Obligation No. 44;

(iii) On installments of principal and interest, on Obligation No. 44 in an amount equal to the principal amount of the 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. 44, 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. 44 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, on Obligation No. 44 in an amount equal to the principal amount of the 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. 44 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 purchase or redemption, against principal installments that would have been used to pay Bonds of the same maturity.

Subject to the receipt by the Master Trustee of notice of the failure of the Corporation to make the foregoing payments as and when due from the Holder of Obligation No. 44, the Master Trustee may conclusively assume that such payments were made and corresponding credit on Obligation No. 44 shall be deemed to have occurred.

Prepayment of Obligation No. 44

So long as all amounts that have become due under Obligation No. 44 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. 44. Prepayments may be made by payments of cash, United States Government Obligations or surrender of Bonds as described above under the caption "Payments on Obligation No. 44; Credits." All such prepayments shall be deposited upon receipt in the Redemption Fund and, at the request of and as determined by the Corporation, credited against payments due under Obligation No. 44 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 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. 44 remain unpaid, the Corporation shall not be relieved of its obligations under the Master Indenture, including Supplement No. 44.

Prepayments made under Supplement No. 44 shall be credited against amounts to become due on Obligation No. 44, as described above under the caption "Payments on Obligation No. 44; Credits."

The Corporation may also prepay all of its indebtedness under Obligation No. 44 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 under the Indenture, Obligation No. 44 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. 44 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. 44 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. 44 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 and in the manner provided under Obligation No. 44; provided that in no event shall any portion of Obligation No. 44 be redeemed unless a corresponding amount of Bonds is also redeemed.

Partial Redemption of Obligation No. 44

Upon the selection and call for redemption, and the surrender, of Obligation No. 44 for redemption in part only, the Corporation shall cause to be executed and the Master Trustee shall authenticate and deliver to, upon the written order of, the Holder thereof, at the expense of the Corporation, a new Obligation No. 44 in principal amount equal to the unredeemed portion of Obligation No. 44, which new Obligation No. 44 shall be a fully registered Obligation without coupons.

The Corporation may agree with the Holder of Obligation No. 44 that such Holder may, in lieu of surrendering Obligation No. 44 for a new fully registered Obligation without coupons, endorse on Obligation No. 44 a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and the principal amount remaining unpaid. Such partial redemption shall be valid upon payment of the amount thereof to the Holder of Obligation No. 44 and the Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of Obligation No. 44 by the Holder thereof and irrespective of any error or omission in such endorsement.

Effect of Call for Redemption

On the date designated for redemption by notice given as provided in Obligation No. 44, Obligation No. 44, or the part thereof called for redemption, shall become and be due and payable at the redemption price provided for redemption of Obligation No. 44 or the part thereof called for redemption on such date. If, on the date fixed for redemption, moneys for payment of the redemption price and accrued interest are held by the Master Trustee, interest on Obligation No. 44, or the part thereof called for redemption, shall cease to accrue and Obligation No. 44, or the part thereof called for redemption, shall cease to be entitled to any benefit or security under the Master Indenture

except the right to receive payment from the moneys held by the Master Trustee or the paying agents and the amount of Obligation No. 44 so called for redemption shall be deemed paid and no longer outstanding.

Ratification of Master Indenture; Agreement to Consent to Amendment of Percentages Specified in Events of Default; Consent to Amendment and Restatement of the Master Indenture

As supplemented by Supplement No. 44, the Master Indenture will be in all respects ratified and confirmed and the Master Indenture as so supplemented by Supplement No. 44 and shall be read, taken and construed as one and the same instrument.

The Corporation has proposed to amend the percentages as further described under the headings "MASTER INDENTURE—Defaults and Remedies—Events of Default," "MASTER INDENTURE—Defaults and Remedies—Acceleration; Annulment of Acceleration" and "MASTER INDENTURE—Defaults and Remedies—Additional Remedies and Enforcement of Remedies" herein and as set forth in the Master Indenture. The purchasers, the Beneficial Owners and all subsequent holders of the Bonds, by their purchase of the Bonds, will be deemed to consent to the amendments described above (hereinafter referred to as the "Percentage Amendments") and that pursuant to such deemed consent the Trustee as Holder of Obligation No. 44 by acceptance of Obligation No. 44, has agreed to consent to the Percentage Amendments when the Corporation shall request such consent from the Trustee pursuant to the Master Indenture. In such event and based on the foregoing, the Master Trustee hereby agrees to accept such consent of the Holder of Obligation No. 44 and to execute such documentation as shall be required to evidence the consent of the Master Trustee to the Percentage Amendments upon satisfaction of all requirements specified in the Master Indenture.

The Corporation has proposed to amend and restate the Master Indenture as set forth in the Second Amended and Restated Master Indenture, the form of which is attached as Appendix E to this Offering Memorandum. The purchasers, Beneficial Owners, and all subsequent holders of the Bonds, by their purchase of the Bonds, have been deemed to consent to the amendment of the Master Indenture as set forth in the Second Amended and Restated Master Indenture. Pursuant to such deemed consent, the Trustee as Holder of Obligation No. 44 by acceptance of Obligation No. 44 has agreed to consent to amendment of the Master Indenture as set forth in the Second Amended and Restated Master Indenture when the Corporation shall request such consent from the Trustee pursuant to the Master Indenture. In such event and based on the foregoing, the Master Trustee agrees to accept such consent and to execute the Second Amended and Restated Master Indenture upon satisfaction of all requirements specified in the Master Indenture.

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APPENDIX D

FORM OF INDENTURE OF TRUST

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STANFORD HEALTH CARE

and

U.S. Bank National Association, as Trustee

INDENTURE OF TRUST

Dated as of April 1, 2021

$365,100,000
STANFORD HEALTH CARE TAXABLE BONDS
Series 2021

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TABLE OF CONTENTS

Page

ARTICLE I DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS 2

SECTION 1.01. Definitions 2

SECTION 1.02. Content of Certificates 9

SECTION 1.03. Interpretation 9

ARTICLE II THE BONDS 10

SECTION 2.01. Authorization of Bonds 10

SECTION 2.02. Certain Terms of the Bonds 10

SECTION 2.03. Form of Bonds 11

SECTION 2.04. Execution of Bonds 11

SECTION 2.05. Transfer of Bonds 11

SECTION 2.06. Exchange of Bonds 12

SECTION 2.07. Bond Register 12

SECTION 2.08. Temporary Bonds 12

SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen 13

SECTION 2.10. Use of Securities Depository 13

ARTICLE III ISSUANCE OF BONDS; APPLICATION OF PROCEEDS 14

SECTION 3.01. Issuance of Bonds 14

SECTION 3.02. Application of Proceeds of Bonds 14

SECTION 3.03. Validity of Bonds 14

SECTION 3.04. Issuance of Obligation No. 44 15

SECTION 3.05. Additional Bonds 15

ARTICLE IV REDEMPTION OF BONDS 15

SECTION 4.01. Terms of Redemption 15

SECTION 4.02. Registration of Bonds in the Book-Entry System 16

SECTION 4.03. Selection of Bonds for Redemption 17

SECTION 4.04. Notice of Redemption 17

SECTION 4.05. Partial Redemption of Bonds 18

SECTION 4.06. Effect of Redemption 18

SECTION 4.07. Mandatory Purchase in Lieu of Redemption 18

TABLE OF CONTENTS
(continued)

Page

ARTICLE V FUNDS AND ACCOUNTS 19

SECTION 5.01. Establishment and Pledge of Indenture Fund 19

SECTION 5.02. Bond Fund 20

SECTION 5.03. Interest Account 21

SECTION 5.04. Principal Account 21

SECTION 5.05. Redemption Fund 21

SECTION 5.06. Payments by the Corporation; Allocation of Funds 22

SECTION 5.07. Investment of Moneys in Funds and Accounts Held By Trustee 23

SECTION 5.08. Amounts Remaining in Funds and Accounts 24

ARTICLE VI PARTICULAR COVENANTS; REPRESENTATIONS AND WARRANTIES 24

SECTION 6.01. Punctual Payment 24

SECTION 6.02. Power to Issue Bonds 24

SECTION 6.03. Accounting Records and Financial Statements 24

SECTION 6.04. Enforcement of Obligation No. 44 25

SECTION 6.05. Replacement of Obligation No. 44 with Obligation Issued Under a Separate Master Indenture 25

SECTION 6.06. Representations and Warranties of the Corporation 26

ARTICLE VII EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS 28

SECTION 7.01. Events of Default 28

SECTION 7.02. Acceleration of Maturity 29

SECTION 7.03. Trustee to act as Holder of Obligation No. 44 29

SECTION 7.04. Application of Moneys Collected by the Trustee 29

SECTION 7.05. Trustee to Represent Bondholders 30

SECTION 7.06. Bondholders' Direction of Proceedings 31

SECTION 7.07. Limitation on Bondholders' Right to Sue 31

SECTION 7.08. Absolute Obligation of the Corporation 31

SECTION 7.09. Termination of Proceedings 32

SECTION 7.10. Remedies Not Exclusive 32

SECTION 7.11. Delay or Omission Not Waiver 32

TABLE OF CONTENTS
(continued)

Page

SECTION 7.12. Waiver of Past Defaults 32
SECTION 7.13. Undertaking for Costs 32
SECTION 7.14. Notice of Default 33
SECTION 7.15. Trustee May File Proofs of Claim 33

ARTICLE VIII THE TRUSTEE 34
SECTION 8.01. Duties, Immunities and Liabilities of Trustee 34
SECTION 8.02. Merger or Consolidation 36
SECTION 8.03. Liability of Trustee 36
SECTION 8.04. Right of Trustee to Rely on Documents 37
SECTION 8.05. Preservation and Inspection of Documents 39
SECTION 8.06. Compensation and Indemnification 39
SECTION 8.07. Notice to Rating Agency 39
SECTION 8.08. Trustee as Holder of Obligation No. 44; Consent to Amendment and Restatement of the Master Indenture 39

ARTICLE IX MODIFICATION OR AMENDMENT OF THE INDENTURE 40
SECTION 9.01. Amendments Permitted 40
SECTION 9.02. Effect of Supplemental Indenture 41
SECTION 9.03. Endorsement of Bonds; Preparation of New Bonds 42
SECTION 9.04. Amendment of Particular Bonds 42

ARTICLE X DEFEASANCE 42
SECTION 10.01. Discharge of Bonds and Indenture 42
SECTION 10.02. Discharge of Liability on Bonds 43
SECTION 10.03. Deposit of Money or Securities with Trustee 43
SECTION 10.04. Payment of Bonds After Discharge of Indenture 44

ARTICLE XI MISCELLANEOUS 44
SECTION 11.01. Successor is Deemed Included in All References to Predecessor 44
SECTION 11.02. Limitation of Rights to Parties and Bondholders 44
SECTION 11.03. Waiver of Notice 45
SECTION 11.04. Destruction of Bonds 45

TABLE OF CONTENTS
(continued)

		Page
SECTION 11.05.	Severability of Invalid Provisions	45
SECTION 11.06.	Notices	45
SECTION 11.07.	Evidence of Rights of Bondholders	45
SECTION 11.08.	Disqualified Bonds	46
SECTION 11.09.	Money Held for Particular Bonds	46
SECTION 11.10.	Funds and Accounts	46
SECTION 11.11.	Waiver of Personal Liability	46
SECTION 11.12.	Business Days	47
SECTION 11.13.	Governing Law; Venue	47
SECTION 11.14.	Execution in Several Counterparts	47
SECTION 11.15.	CUSIP Numbers	47
SECTION 11.16.	Entire Agreement	47

EXHIBIT

Exhibit A	SERIES 2021 FORM OF BOND

THIS INDENTURE OF TRUST (this "Indenture"), is made and entered into as of April 1, 2021, by and between STANFORD HEALTH CARE, a California nonprofit public benefit corporation (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, having a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Corporation has the requisite power to contract, to borrow money and to issue its bonds, and desires to provide for and has authorized the issuance of its Taxable Bonds, Series 2021 (the "Series 2021 Bonds") in an aggregate principal amount of $365,100,000;

WHEREAS, the proceeds of the Series 2021 Bonds will be used by the Corporation for general corporate purposes;

WHEREAS, in order to provide for the authentication and delivery of the Series 2021 Bonds and any Additional Bonds (as defined herein and, together with the Series 2021 Bonds, the "Bonds"), to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to provide for the payment of the principal, the Redemption Price or the Make-Whole Redemption Price (both as defined herein) thereof and of the interest thereon, the Corporation has authorized the execution and delivery of this Indenture;

WHEREAS, the Corporation, as the Obligated Group Representative (as defined in the Master Indenture defined below) and, currently, the sole Member of the Obligated Group, has previously entered into an Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (as amended, the "Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"); and will substantially concurrently with this Indenture enter into a Supplemental Master Indenture for Obligation No. 44, dated as of April 1, 2021 ("Supplement No. 44"), between the Corporation and the Master Trustee, to evidence the obligation of the Corporation to make payment sufficient to pay the principal of and interest on the Bonds pursuant to Supplement No. 44 ("Obligation No. 44");

WHEREAS, the Bonds, and the Trustee's certificate of authentication and assignment to appear thereon, shall be in substantially the form attached hereto as Exhibit A, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by the Corporation, authenticated and delivered by the Trustee and duly issued, the valid and binding obligations of the Corporation, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized.

NOW, THEREFORE, the Corporation and the Trustee have executed and delivered this Indenture in order to provide for the payment of the principal (or Redemption Price or Make-Whole Redemption Price) of, and the interest on, all Bonds at any time issued and Outstanding

hereunder, according to their tenor, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and for and in consideration of the premises and mutual covenants herein contained, of the acceptance by the Trustee of the trusts hereby created, of the purchase and acceptance of the Bonds by the Holders (as defined herein) thereof, and for other valuable consideration, the receipt of which is hereby acknowledged; and

IT IS HEREBY COVENANTED, DECLARED AND AGREED by and between the parties hereto that all the Bonds to be issued hereunder are to be issued, authenticated and delivered, and that all property subject or to become subject hereto, is to be held and applied, upon and subject to the further covenants, conditions, uses and trusts hereinafter set forth; and the Corporation, for itself and its successors, does hereby covenant and agree to and with the Trustee and its successors in trust, for the benefit of all those who shall hold the Bonds, or any of them, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Indenture and of any Supplemental Indenture and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

"Accountant" means any independent certified public accountant or firm of such accountants of national reputation selected by the Corporation.

"Additional Bonds" means bonds issued under this Indenture subsequent to the initial issuance of the Series 2021 Bonds that are consolidated with such bonds.

"Authorized Denomination" means $1,000 or any multiple integral thereof.

"Authorized Representative" means the Chair or Vice Chair of the Corporation's 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.

"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 Fund" means the fund by that name established pursuant to Section 5.02.

"Bonds" means the Stanford Health Care Taxable Bonds, Series 2021 together with any Additional Bonds, authorized by, and at any time Outstanding pursuant to, this Indenture.

"Book-Entry Form" or "Book-Entry System" means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee, as Bondholder, with the physical bond certificates held by and "immobilized" in the custody of the Securities Depository, which form or system is maintained by and the responsibility of others than the Corporation or the Trustee and is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

"Business Day" means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

"Certificate," "Statement" or "Request" of the Corporation mean, respectively, a written certificate, statement or request signed in the name of the Corporation by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02

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

"Comparable Treasury Issue" means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

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

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

"Default" means any event that is or after notice or lapse of time or both would become an Event of Default.

"Designated Investment Banker" means a Primary Treasury Dealer appointed by the Corporation.

"Designated Office" means the Designated Office of the Trustee, which as of the date of this Indenture is located at U.S. Bank National Association, One California Street, Suite 1000, San Francisco, CA, Attention: Global Corporate Trust, and such other offices as the Trustee may designate from time to time by written notice to the Corporation and the Holders; provided, however, that for purposes of the presentation of Bonds for payment, transfer or exchange, the Designated Office shall be the Trustee's designated corporate trust agency or operations office, which as of the date of this Indenture is located in Saint Paul, Minnesota.

"Electronic Means" is defined in Section 8.04.

"Event of Default" means any of the events specified in Section 7.01.

"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 upon notice in writing to the Trustee.

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

"Indenture" means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

"Indenture Fund" means the fund by that name established pursuant to Section 5.01.

"Interest Account" means the account by that name in the Bond Fund established pursuant to Section 5.02.

"Interest Payment Date" means February 15 and August 15 of each year, commencing August 15, 2021, until the maturity date of the Bonds.

"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 bank deposit products, trust funds, trust accounts, 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 funds and bankers' acceptances with domestic commercial banks (including the Trustee or any of its affiliates) (i) 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 or (ii) are insured by the Federal Deposit Insurance Corporation; (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 mutual 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 and retains fees from money market funds for services rendered to such funds, (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).

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

"Make-Whole Redemption Price" means the greater of (1) 100% of the principal amount of the Bonds to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed (not including any portion of those payments of interest accrued and unpaid as of the redemption date), discounted to the redemption date on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the Treasury Rate plus 15 basis points, plus, in each case, accrued and unpaid interest on such Bonds to, but excluding, the redemption date.

"Master Indenture" means that certain Amended and Restated Master Indenture of Trust, dated as of June 1, 2011, between Stanford Hospital and Clinics, currently known as Stanford Health Care, and the Master Trustee, and which amended and restated the Master Indenture of Trust dated as of December 1, 1990, between Stanford University Hospital, currently known as Stanford Health Care, and First Interstate Bank, LTD., predecessor master trustee to BNY Western Trust Company, predecessor-in-interest to The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as master trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

"Master 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.

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

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, and any successor to its securities rating agency business, 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 upon notice to the Trustee.

"Obligated Group" means the Corporation and each other Person that becomes a member of, and has not withdrawn from, the Obligated Group, in each case pursuant to the terms of the Master Indenture.

"Obligation No. 44" means the obligation issued by the Corporation pursuant to the Master Indenture and Supplement No. 44.

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

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.08) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this 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 Corporation shall have been discharged in accordance with Section 10.02, including Bonds (or portions of Bonds) referred to in Section 11.08; (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 this Indenture; and (4) Bonds paid pursuant to the provisions of this Indenture relating to mutilated, lost, destroyed or stolen Bonds.

"Par Call Date" means February 15, 2051.

"Payment Date" means an Interest Payment Date or a Principal Payment Date.

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

"Primary Treasury Dealer" means one or more entities appointed by the Corporation, which, in each case, is a primary U.S. Government securities dealer in The City of New York, New York, and its or their respective successors.

"Primary Treasury Dealer Quotations" means, with respect to each Primary Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and ask prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Primary Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

"Principal Account" means the account by that name in the Bond Fund established pursuant to Section 5.02.

"Principal Payment Date" means, with respect to a Bond, the date on which principal evidenced by such Bond becomes due and payable, whether at maturity, upon redemption, by declaration of acceleration or otherwise.

"Rating Agency" means, as and to the extent applicable, any nationally recognized securities rating service, including Fitch, Moody's or S&P, then maintaining a rating on the Bonds at the request, or upon application, of the Corporation.

"Rating Category" means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Record Date" means, with respect to each Interest Payment Date, the first (1st) day (whether or not a Business Day) of the calendar month during which such Interest Payment Date occurs.

"Redemption Fund" means the fund by that name established pursuant to Section 5.05.

"Redemption Price" means 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bonds to be redeemed to, but excluding, the redemption date.

"Responsible Officer" means, when used with respect to the Trustee, the president, any managing director, 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 Designated 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 Designated Office because of such person's knowledge of and familiarity with the particular subject and, in each case, having direct responsibility for the administration of this Indenture.

"S&P" means S&P Global Inc., a corporation organized and existing under the laws of the State of New York, and any successor to its securities rating agency business, 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 upon written notice to the Trustee.

"Securities Depository" means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in Section 2.10, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Series 2021 Bonds" means the Stanford Health Care Taxable Bonds, Series 2021, authorized by and at any time Outstanding pursuant to, the terms of this Indenture.

"Special Record Date" means the date established by the Trustee pursuant to Section 2.02 as the record date for the payment of defaulted interest on the Bonds.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Corporation and the Trustee, authorizing the issuance of Additional Bonds or supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Supplement No. 44" means that certain supplemental master indenture, dated as of April 1, 2021, between the Corporation and the Master Trustee, as originally executed and as it may be amended or supplemented from time to time in accordance with the terms thereof.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to (i) the semiannual equivalent yield to maturity or (ii) if no such semiannual equivalent yield to maturity is available, the interpolated yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Trustee" means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor or successors, as Trustee hereunder as provided in Section 8.01.

"Underwriters" means Goldman Sachs & Co. LLC.

"Uniform Commercial Code" means the Uniform Commercial Code as in effect in the State of California, as amended, from time to time.

"United States Government Obligations" means direct nonprepayable, noncallable 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 direct nonprepayable, noncallable obligations, the timely payment of the principal of and interest on which is fully and unconditionally guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this definition such as

CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody's and held by a custodian for safekeeping on behalf of holders of such securities.

SECTION 1.02. Content of Certificates. Every certificate provided for in this Indenture to be given by or on behalf of the Corporation with respect to compliance with any provision hereof shall include (1) a statement that the individual making or giving such certificate has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate is based; (3) a statement that, in the opinion of such individual, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter referred to in the instrument to which his or her signature is affixed; and (4) a statement as to whether, in the opinion of such individual, such provision has been complied with.

Any such certificate made or given by an Authorized Representative of the Corporation may be based, insofar as it relates to legal, accounting or management matters, upon a certificate or opinion of or representation by Counsel, an Accountant or a management consultant, unless such Authorized Representative knows, or in the exercise of reasonable care should have known, that such certificate, opinion or representation with respect to such matters is erroneous. Any such certificate or opinion made or given by Counsel, an Accountant or a management consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Corporation) upon a certificate or opinion of or representation by an officer or Authorized Representative of the Corporation, unless such Counsel, Accountant or management consultant knows, or in the exercise of reasonable care should have known, that such certificate or opinion or representation with respect to such matters is erroneous. The same Authorized Representative of the Corporation, or the same Counsel, Accountant or management consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Indenture, and different Authorized Representatives, Counsel, Accountants or management consultants may each certify to different matters.

SECTION 1.03. Interpretation.

(A) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(B) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(C) All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

(D) Unless otherwise specified, all references herein to times of day shall be references to Pacific Time (daylight or standard, as applicable).

ARTICLE II

THE BONDS

SECTION 2.01. Authorization of Bonds. An issue of Bonds to be issued hereunder in order to obtain funds to carry out the purposes indicated herein for the benefit of the Corporation is hereby created. The Bonds are designated as "Stanford Health Care Taxable Bonds, Series 2021." Nothing contained herein shall be deemed to preclude or restrict the consolidation of any Additional Bonds issued pursuant hereto with the Series 2021 Bonds theretofore issued; *provided*, *however*, that each of the conditions and other requirements contained herein for the authorization and issuance of Additional Bonds shall be met and complied with. Any Additional Bonds consolidated with the Series 2021 Bonds shall be treated as a single issue of Bonds for all purposes hereof. This Indenture constitutes a continuing agreement with the Holders from time to time of the Bonds to secure the full payment of the principal or applicable redemption price of and interest on all such Bonds subject to the covenants, provisions and conditions contained herein and in the Bonds.

SECTION 2.02. Certain Terms of the Bonds.

(A) The Bonds shall be issued as fully registered Bonds in Authorized Denominations. The Bonds shall be registered initially in the name of Cede & Co., as nominee of the Securities Depository, in the principal amount of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 2.10. The Bonds shall be dated as of the date of first authentication and delivery by the Trustee and shall be numbered from R-1 upward. The Bonds shall mature (subject to prior redemption) on August 15, 2051.

(B) The principal, Redemption Price or Make-Whole Redemption Price of the Bonds shall be payable by check or by wire transfer of immediately available funds in lawful money of the United States of America at the Designated Office of the Trustee.

Interest on the Bonds shall be payable from the later of (i) the Issue Date of the Bonds and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. Payment of the interest on each Interest Payment Date shall be made to the Person whose name appears on the registration books of the Trustee as the Holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed on the applicable Interest Payment Date by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least $1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one (1) Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States of America designated by such Holder in such written request.

Notwithstanding the foregoing, as long as the Securities Depository is the Holder of all or part of the Bonds in Book-Entry Form, such principal, Redemption Price or Make-Whole

Redemption Price and interest payments shall be made to the Securities Depository by wire transfer in immediately available funds. CUSIP number identification shall accompany all payments of principal, Redemption Price or Make-Whole Redemption Price and interest, whether by check or by wire transfer.

(C) The Bonds shall bear interest from their Issue Date at the rate of 3.027% per annum. Interest on the Bonds shall be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

(D) Any such interest not so punctually paid or duly provided for with respect to any Bond shall promptly cease to be payable to the Bondholder on such Record Date and shall be paid to the Person in whose name the Bond is registered at the close of business on a "Special Record Date" for the payment of any such defaulted interest to be fixed by the Trustee, notice whereof to be given by first class mail to the Holders of such Bonds not less than ten (10) days prior to such Special Record Date.

(E) The Bonds shall be subject to redemption as provided in Article IV.

SECTION 2.03. Form of Bonds. The Bonds, and the Trustee's certificate of authentication and assignment to appear thereon, shall be in substantially the form attached hereto as Exhibit A, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

SECTION 2.04. Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Corporation with the manual or facsimile signature of an Authorized Representative. The Bonds shall then be delivered to the Trustee for authentication by it. In case any Authorized Representative who shall have signed any of the Bonds shall cease to be an Authorized Representative of the Corporation before the Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the Corporation, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Corporation as though the person who signed the same had continued to be an Authorized Representative of the Corporation, and also any Bond may be signed on behalf of the Corporation by such Person as at the actual date of execution of such Bond shall be an Authorized Representative of the Corporation although at the nominal date of such Bond any such Person shall not have been an Authorized Representative of the Corporation.

Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form attached hereto as Exhibit A manually or electronically executed by an authorized signatory of the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.05. Transfer of Bonds. Any Bond may, in accordance with its terms and subject to the limitations provided in Section 2.10, be transferred upon the books required to be kept pursuant to the provisions of Section 2.07 by the Person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for

cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Corporation shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount in Authorized Denominations. The Trustee may require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover any expenses incurred by the Corporation in connection with such transfer. The Trustee shall not be required to transfer (i) any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption or (ii) any Bond called for redemption.

SECTION 2.06. Exchange of Bonds. Bonds may be exchanged at the Designated Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations. The Trustee may require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange, and the Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover any expenses incurred by the Corporation in connection with such exchange. The Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption or (ii) any Bond called for redemption.

SECTION 2.07. Bond Register. The Trustee shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all reasonable times (during regular business hours at the location where such books are kept) upon prior written notice be open to inspection by any Bondholder, the Corporation or their respective agents duly authorized in writing; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided.

SECTION 2.08. Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bond may be printed, lithographed or typewritten, shall be of such denomination as may be determined by the Corporation, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. A temporary Bond may be in the form of a single fully registered Bond payable in installments, each on the date, in the amount and at the rate of interest established for the Bonds. Every temporary Bond shall be executed by the Corporation and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Corporation issues temporary Bonds it will issue definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Designated Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Corporation, at the expense of the Holder of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the Corporation. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity satisfactory to the Trustee and the Corporation shall be given, the Corporation, at the expense of the Holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof). The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section 2.09 and of the expenses which may be incurred by the Corporation and the Trustee in complying with this Section 2.09. Any Bond issued under the provisions of this Section 2.09 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Corporation whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

SECTION 2.10. Use of Securities Depository.

Notwithstanding any provision of this Indenture to the contrary:

(A) The Bonds shall be initially issued as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(1) To any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this subsection (A) ("substitute depository"); *provided* that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(2) To any substitute depository designated by the Corporation and not objected to by the Trustee, upon (i) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the Corporation that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; *provided* that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(3) To any Person as provided below, upon (i) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; *provided* that no substitute depository can be obtained or (ii) a determination by the Corporation that it is in the best interests of the Corporation to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(B) In the case of any transfer pursuant to clause (1) or clause (2) of subsection (A), upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Corporation to the Trustee, new Bonds shall be executed and delivered in the principal amount of the Bonds, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Corporation. In the case of any transfer pursuant to clause (3) of subsection (A), upon receipt of the Outstanding Bonds by the Trustee together with a Certificate of the Corporation to the Trustee, new Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such Certificate of the Corporation, subject to the limitations of Section 2.02; *provided* the Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such Certificate of the Corporation.

(C) In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

(D) The Corporation and the Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Corporation or the Trustee.

(E) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assigns, the Corporation and the Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns, in effecting payment of the principal (or Redemption Price or Make-Whole Redemption Price of) and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due, all in accordance with the letter of representations of the Corporation to the Securities Depository or as otherwise agreed by the Trustee and the Securities Depository.

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

SECTION 3.01. Issuance of Bonds. At any time after the execution of this Indenture, the Corporation may execute and the Trustee shall authenticate and, upon Request of the Corporation, deliver the Bonds in the aggregate principal amount of $365,100,000.

SECTION 3.02. Application of Proceeds of Bonds. The proceeds from the sale of the Bonds (net of underwriters' discount and original issue discount, if any) shall be transferred by the Underwriters at the direction of the Corporation.

SECTION 3.03. Validity of Bonds. The recital contained in the Bonds that the same are issued pursuant to the Indenture shall be conclusive evidence of their validity and of compliance with the provisions of the Indenture in their issuance.

SECTION 3.04. Issuance of Obligation No. 44. In connection with the issuance of the Bonds, the Obligated Group shall issue and deliver the executed and authenticated Obligation No. 44 to the Trustee, registered in the name of the Trustee, to secure the Bonds.

SECTION 3.05. Additional Bonds.

(A) The Corporation may, from time to time, without the consent of the Bondholders, issue additional bonds under this Indenture in addition to the Bonds (the "Additional Bonds") pursuant to a Supplemental Indenture. If issued, the Additional Bonds will have the same interest rate, redemption provisions and maturity date as the Bonds.

(B) As a condition to the issuance of Additional Bonds there shall be delivered to the Trustee a certificate of the Corporation, certifying that, after consultation with Counsel experienced in federal securities and tax laws, the issuance and consolidation of such Additional Bonds will not cause (i) any adverse tax impact on the Holders of Outstanding Series 2021 Bonds, (ii) the Outstanding Series 2021 Bonds to be required to be registered under the Securities Act of 1933, as amended or (iii) the Indenture to be required to be qualified under the Trust Indenture Act of 1939, as amended.

(C) Concurrently with the issuance of such Additional Bonds, Supplement No. 44 and Obligation No. 44 shall be amended to increase the principal amount of Obligation No. 44 to an amount equal to the Outstanding principal amount of the Bonds after taking into account the issuance of such Additional Bonds, and the Trustee is directed to surrender the existing Obligation No. 44 in exchange for an amended Obligation No. 44. No consent is required from the Holders or Beneficial Owners of the Bonds or the Trustee to effect such amendments to Supplement No. 44 and Obligation No. 44.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. Terms of Redemption.

(A) On or after the Par Call Date, the Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Corporation to the Trustee. Such redemption shall be in accordance with the terms of the Bonds as directed by the Corporation, at the Redemption Price, as described in the form of the Bonds in Exhibit A.

(B) Prior to the Par Call Date, the Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Corporation to the Trustee. Such redemption shall be in accordance with the terms of the Bonds as directed by the Corporation, at the Make-Whole Redemption Price, as described in the form of the Bonds in Exhibit A. The Corporation shall retain an independent accounting firm, an investment banking firm or an independent financial advisor to determine the Make-Whole Redemption Price of the Bonds to be redeemed and perform all actions and make all calculations required to determine such Make-Whole Redemption Price. The Trustee and the Corporation may conclusively rely on such accounting firm's, investment banking firm's or financial advisor's calculations in connection with, and its determination of, the Make-Whole Redemption Price, and neither the Trustee nor the

Corporation shall have any liability for such reliance. The determination of the Make-Whole Redemption Price by such accounting firm, investment banking firm or financial advisor shall be conclusive and binding on the Trustee, the Corporation and the Holders of the Bonds. The Corporation shall provide written notice to the Trustee of the Make-Whole Redemption Price at least two Business Days' prior to the date of redemption.

SECTION 4.02. Registration of Bonds in the Book-Entry System.

(A) The provisions of this Section 4.02 shall apply with respect to any Bond registered to Cede & Co. or any other nominee of the Securities Depository while the Book-Entry System is in effect.

(B) On the date of original delivery thereof, the Bonds shall be registered in the registration books of the Trustee in the name of Cede & Co., as nominee of the Securities Depository as agent for the Corporation in maintaining the Book-Entry System. With respect to Bonds registered in the registration books of the Trustee in the name of Cede & Co., as nominee of the Securities Depository, the Corporation and the Trustee shall have no responsibility or obligation to any Participant (which means securities brokers and dealers, banks, trust companies, clearing corporations and various other entities, some of whom or their representatives own the Securities Depository) or to any Beneficial Owner (which means, when used with reference to the Book-Entry System, the Person who is considered the beneficial owner of the Bonds pursuant to the arrangements for book entry determination of ownership applicable to the Securities Depository) with respect to the following: (1) the accuracy of the records of the Securities Depository, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (2) the delivery to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository, of any notice with respect to the Bonds, including any notice of redemption, or (3) the payment to any Participant, any Beneficial Owner or any other Person, other than the Securities Depository, of any amount with respect to the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the Corporation's obligations with respect to the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds to the extent of the sum or sums so paid. No Person other than the Securities Depository shall receive an authenticated Bond evidencing the obligation of the Corporation to make payments of principal, Redemption Price or Make-Whole Redemption Price of and interest pursuant to this Indenture. Upon delivery by the Securities Depository to the Trustee of written notice to the effect that the Securities Depository has determined to substitute a new nominee in place of Cede & Co., the words "Cede & Co." in this Indenture shall refer to such new nominee of the Securities Depository.

(C) In the event the Corporation determines that it is in the best interests of the Beneficial Owners that they be able to obtain Bond certificates, the Corporation may so notify the Securities Depository and the Trustee, whereupon the Securities Depository will notify the Participants of the availability through the Securities Depository of Bond certificates. In such event, the Trustee shall issue, transfer and exchange Bond certificates as requested by the Securities Depository in appropriate amounts and in authorized denominations. Whenever the Securities Depository requests the Corporation and the Trustee to do so, the Trustee and the Corporation will cooperate with the Securities Depository in taking appropriate action after

reasonable notice to make available Bonds registered in whatever name or names the Beneficial Owners transferring or exchanging Bonds shall designate.

(D) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of the Securities Depository, all payments with respect to the principal, Redemption Price or Make-Whole Redemption Price of and interest on such Bond, and all notices with respect to such Bond, shall be made and given, respectively, to the Securities Depository as provided in the representation letter that is on file with the Corporation.

SECTION 4.03. Selection of Bonds for Redemption.

(A) If the Bonds are registered in book-entry only form and so long as the Securities Depository or its nominee is the sole registered owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with the customary procedures and the operational arrangements of the Securities Depository then in effect, but, if such operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds shall be selected for redemption, in accordance with the customary procedures of the Securities Depository, or by lot.

(B) If the Securities Depository or its nominee is no longer the sole registered owner of the Bonds, and if less than all of the Bonds are called for redemption, the Trustee shall select the Bonds to be redeemed on a pro rata basis.

SECTION 4.04. Notice of Redemption.

(A) Notice of redemption shall be sent by the Corporation to the Trustee by first class mail or using Electronic Means not less than seven (7) Business Days nor more than sixty (60) days prior to the date that notice of redemption is due to be given by the Trustee in accordance with the following sentence. Notice of redemption shall be sent by the Trustee by first class mail or using Electronic Means, not less than twenty (20) nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. If the Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by overnight mail or Electronic Means to such securities depositories and/or securities information services as shall be designated in a Certificate of the Corporation. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the Redemption Price or the method for determining the Make-Whole Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP number (if any), the conditions, if any, to the redemption, as provided by the Corporation, and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, as provided by the Corporation. Each such notice shall also state that, on such date, there will become due and payable on each such Bond the Redemption Price or Make-Whole Redemption Price (as applicable) thereof, or such specified portion of the principal amount thereof, in the case of a Bond to be redeemed in part only, and that from and after such

redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

(B) Notice of redemption of the Bonds shall be given to the applicable Holders by the Trustee, at the expense of the Corporation, for and on behalf of the Corporation.

(C) Failure by the Trustee to give notice pursuant to this Section 4.04 to any one or more of the securities information services, intermediaries or depositories designated by the Corporation, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to send notice of redemption pursuant to this Section 4.04 to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

(D) The Corporation may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. Additionally, any notice given pursuant to this Section 4.04 may be rescinded by written notice given to the Trustee by the Corporation no later than five (5) 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, to the same Persons, as notice of such redemption was given pursuant to this Section 4.04.

SECTION 4.05. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Corporation shall execute (but need not prepare) and the Trustee shall prepare or cause to be prepared, authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of Authorized Denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered in part.

SECTION 4.06. Effect of Redemption.

(A) Moneys for payment of the Redemption Price or Make-Whole Redemption Price of the Bonds (or portion thereof called for redemption in accordance with Section 4.05) shall be held by the Trustee, and, if any conditions specified in the notice of redemption have been satisfied, paid by the Trustee, on the date fixed for redemption designated in such notice. The Bonds (or portion thereof) so called for redemption shall become due and payable at the Redemption Price or Make-Whole Redemption Price specified in (or pursuant to the method of calculating the Make-Whole Redemption Price specified in) such notice, interest on the Bonds so called for redemption shall cease to accrue and such Bonds (or portion thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of such Bonds shall have no rights in respect thereof except to receive the payment of such Redemption Price or Make-Whole Redemption Price from funds held by the Trustee for such payment.

(B) All Bonds redeemed pursuant to the provisions of this Article IV shall be cancelled by the Trustee upon surrender thereof and delivered to, or upon the order of, the Corporation.

SECTION 4.07. Mandatory Purchase in Lieu of Redemption. Each Holder or Beneficial Owner, by purchase and acceptance of any Bond, irrevocably grants to the

Corporation the option to purchase such Bond, in whole or in part, at any time such Bond is subject to optional redemption as provided in this Article IV, at a purchase price equal to the then applicable redemption price of such Bond. In order to exercise such option, 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 set forth in this Article IV. On the date fixed for purchase of any Bond pursuant to this Section 4.07, 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 pursuant to this Section 4.07 shall operate to extinguish the indebtedness evidenced by such Bond. No Holder or Beneficial Owner may elect to retain a Bond subject to mandatory purchase pursuant to this Section 4.07. The Corporation may exercise its option to purchase Bonds, in whole or in part, in accordance with this Section 4.07. The Corporation may rescind any notice of mandatory purchase delivered pursuant to this Section 4.07 at any time on or prior to date of mandatory purchase specified in the notice of mandatory purchase delivered pursuant to this Section.

ARTICLE V

FUNDS AND ACCOUNTS

SECTION 5.01. Establishment and Pledge of Indenture Fund.

(A) The Trustee hereby establishes, for the sole benefit of the Holders of the Bonds, a fund referred to herein as the "Indenture Fund" containing the Bond Fund and the Redemption Fund and each of the accounts contained therein. The Indenture Fund and each of the funds and accounts in the Indenture Fund shall be identified on the books of the Trustee with reference hereto and shall be maintained by the Trustee and held in trust apart from all other moneys and securities held under this Indenture or otherwise, and the Trustee shall have the exclusive and sole right of withdrawal therefrom in accordance with the terms of this Indenture. All amounts deposited with the Trustee pursuant to this Indenture shall be held, disbursed, allocated and applied by the Trustee only as provided in this Indenture.

(B) Subject only to the provisions of this Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth herein, the Indenture Fund and all amounts held therein are hereby pledged, assigned and transferred by the Corporation to the Trustee for the benefit of the Bondholders to secure the full payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of this Indenture. The Corporation hereby grants to the Trustee a security interest in and acknowledges and agrees that the Indenture Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds, in accordance with their terms and the provisions of this Indenture. For purposes of creating, perfecting and maintaining the security interest of the Trustee on behalf of the Bondholders in and to the Indenture Fund and all amounts on deposit therein, the parties hereto agree as follows:

(1) this Indenture shall constitute a "security agreement" for purposes of the Uniform Commercial Code;

(2) the Trustee shall maintain on its books and records the interest, as set forth in this Indenture, of the Bondholders in the Indenture Fund and/or the amounts on deposit therein; and

(3) the Indenture Fund and the amounts on deposit therein and any proceeds thereof shall be held by the Trustee acting in its capacity as an agent of the Bondholders, and the holding of such items by the Trustee (including the transfer of any items among the funds and accounts in the Indenture Fund) is deemed possession of such items on behalf of the Bondholders.

(C) Nothing in this Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Corporation other than in any interest of the Corporation in the Indenture Fund and/or the amounts on deposit therein. No recourse for the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Corporation in this Indenture or in any Supplemental Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any past, present or future employee, agent, or officer of the Corporation or of any successor entity, either directly or through any successor entity, whether by any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Bonds.

(D) No officer or agent of the Corporation, nor any individual executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

SECTION 5.02. Bond Fund.

(A) Upon the receipt thereof, the Trustee shall deposit all payments received from the Corporation (other than amounts which are to be applied pursuant to Section 5.05 or income or profit from investments which are to be applied pursuant to Section 5.07) with respect to the Bonds in a special fund designated the "Bond Fund" which the Trustee shall establish and maintain and hold in trust and which shall be disbursed and applied only as authorized in this Article V.

(B) At the times specified below, the Trustee shall allocate within the Bond Fund in the following order of priority the following amounts to the following accounts or funds, each of which the Trustee shall establish and maintain and hold in trust and each of which shall be disbursed and applied only as hereinafter authorized:

(1) On each Interest Payment Date, the Trustee shall deposit in the "Interest Account" the aggregate amount of interest becoming due and payable on such

Interest Payment Date on all Bonds then Outstanding, until the balance in such account is equal to such aggregate amount of interest; and

(2) On each Principal Payment Date, the Trustee shall deposit in the "Principal Account" the aggregate amount of principal becoming due and payable on such Principal Payment Date, until the balance in such account is equal to such aggregate amount of such principal.

(C) At least eight (8) but not more than twenty (20) Business Days before each Interest Payment Date, the Trustee shall determine the amount, if any, credited or to be credited to the Bond Fund during the period from the day after the last Interest Payment Date to the next succeeding Interest Payment Date from any source. The Trustee shall give notice to the Corporation of such amount and the amount due, which notice shall be mailed, sent by facsimile transmission or using Electronic Means or delivered in such manner that the Corporation will receive such notice by the seventh Business Day before such next succeeding Interest Payment Date. Any oral or telephonic notice shall be supplemented by notice given in accordance with the preceding sentence.

(D) The Corporation may at any time surrender to the Trustee for cancellation by it any Bonds that the Corporation may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired. All Bonds after such surrender and cancellation shall be destroyed by the Trustee.

SECTION 5.03. Interest Account. All amounts in the Interest Account of the Bond Fund 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 redeemed prior to maturity pursuant to this Indenture).

SECTION 5.04. Principal Account. All amounts in the Principal Account of the Bond Fund shall be used and withdrawn by the Trustee solely to pay the Bonds at maturity.

SECTION 5.05. Redemption Fund.

(A) Upon the receipt thereof, the Trustee shall deposit the following amounts in a special fund designated the "Redemption Fund" that the Trustee shall establish and maintain and hold in trust:

(1) all moneys deposited by the Corporation with the Trustee directed to be deposited in the Redemption Fund; and

(2) all interest, profits and other income received from the investment of moneys in the Redemption Fund.

(B) All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in Section 4.01, at the date of redemption for which notice has been given; *provided that*, at any time prior to the selection of Bonds for such redemption, the Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds at public

or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued and unpaid 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 or Make-Whole Redemption Price (exclusive of accrued interest) then applicable to such Bonds; *provided further that*, in lieu of redemption at such date of redemption, or in combination therewith, amounts in such account may be transferred to the Principal Account as set forth in a Request of the Corporation.

SECTION 5.06. Payments by the Corporation; Allocation of Funds.

(A) On or before 8:00 AM (Pacific Time) on each Payment Date, until the principal of and interest on the Bonds shall have been fully paid or provision for such payment shall have been made as provided in this Indenture, the Corporation shall pay to the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds, less the amounts, if any, in the Bond Fund and available therefor. Such payments shall be made in federal funds or other funds immediately available at the Designated Office of the Trustee and shall be promptly deposited by the Trustee in the Bond Fund upon receipt thereof.

Each payment made pursuant to this subsection (A), together with available amounts, if any, in the Bond Fund, shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date the available amounts held by the Trustee in the Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the Corporation shall promptly pay such deficiency to the Trustee.

(B) The obligations of the Corporation to make the payments required by subsection (A) hereof and to perform and observe the other agreements on its part contained herein shall be a general obligation of the Corporation, absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Trustee, and during the term of this Indenture, the Corporation shall pay all payments required to be made under subsection (A) (which payments shall be net of any other obligations of the Corporation) as prescribed therein and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by this Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in subsection (A) hereof; (ii) will perform and observe all of its other covenants contained in this Indenture; and (iii) except as provided in Article IV or Article X hereof, will not terminate this Indenture for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the projects financed or refinanced with the proceeds of the Bonds, 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 of these, or any failure of the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Indenture, except to the extent permitted by this Indenture.

SECTION 5.07. Investment of Moneys in Funds and Accounts Held By Trustee.

(A) Moneys held in the Indenture Fund shall be invested by the Trustee, upon written direction of the Corporation as set forth in a Request of the Corporation and delivered to the Trustee, solely in Investment Securities. In the absence of such Request, such funds shall be held uninvested. Investment Securities shall be purchased at such prices as the Corporation may direct. All Investment Securities shall be acquired subject to the limitations as to maturities in Section 5.07(B) and such additional limitations or requirements consistent with the foregoing as may be established by such Request. No such Request shall impose any duty on the Trustee inconsistent with its responsibilities hereunder.

(B) Such moneys in the Indenture Fund 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 this Indenture.

(C) All interest, profits and other income received from the investment of moneys in the Redemption Fund shall be deposited when received in the Redemption Fund. All interest, profits and other income received from the investment of moneys in the Bond Fund shall be deposited in the Bond Fund upon receipt thereof.

(D) Investment Securities acquired as an investment of moneys in any fund or account established under this Indenture shall be credited to such fund or account. Registrable Investment Securities held by the Trustee shall be registered in the name of the Trustee. In making any valuations of investments hereunder, the Trustee may utilize and rely on generally recognized securities pricing services (including brokers and dealers in securities) that are available to it, including those available through its regular accounting system.

(E) The Trustee may commingle any of the funds or accounts established pursuant to this Indenture into a separate fund or funds for investment purposes only; *provided* that all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Indenture. The Trustee or its affiliates may act as sponsor, depository, advisor, principal or agent in the making or disposing of any investment. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section 5.07, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account. The Trustee may sell at the best prices reasonably obtainable by it, 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, and the Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of this Section 5.07. The Trustee shall not be responsible for any tax, fee or other charge in connection with any investment, reinvestment or the liquidation thereof. Any ratings of Investment Securities shall be determined at the time of purchase of such Investment Securities and without regard to ratings subcategories. The Trustee may rely on the investment directions of the Corporation as to the suitability and legality of the directed investments.

(F) The parties hereto acknowledge that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Corporation the right to receive brokerage confirmations of security transactions as they occur at no additional cost, the Corporation specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation with monthly account statements detailing all funds and accounts and investment transactions made by the Trustee hereunder.

SECTION 5.08. Amounts Remaining in Funds and Accounts. When there are no longer any Bonds Outstanding, all fees, charges and expenses of the Trustee, including fees and expenses of Counsel to the Trustee, have been paid or provided for and this Indenture has been satisfied and discharged, the Trustee shall pay any amounts remaining in any of the funds or accounts created under this Indenture to the Corporation within thirty (30) days after the date of such satisfaction and discharge.

ARTICLE VI

PARTICULAR COVENANTS; REPRESENTATIONS AND WARRANTIES

SECTION 6.01. Punctual Payment. The Corporation shall punctually pay the principal, Redemption Price or Make-Whole Redemption Price and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and this Indenture. When and as paid in full, all Bonds shall be delivered to the Trustee and shall thereafter be cancelled by the Trustee and delivered to, or upon the order of, the Corporation.

SECTION 6.02. Power to Issue Bonds. The Corporation is duly authorized to issue the Bonds and to enter into this Indenture and perform the transactions hereunder in the manner and to the extent provided herein. The Bonds are and will be the legal, valid and binding obligations of the Corporation in accordance with their terms, and the Corporation and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect such obligations and all the rights of the Bondholders under this Indenture against all claims and demands of all Persons, subject to the limitations set forth in Article VIII relating to the Trustee.

SECTION 6.03. Accounting Records and Financial Statements.

(A) With respect to each fund or account established and maintained by the Trustee pursuant to this Indenture, the Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with corporate trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of payments received from the Corporation and the proceeds of the Bonds. Such books of record and account shall be available for inspection by the Corporation and any Bondholder, or his or her agent or representative duly authorized in writing, with prior notice, during the Trustee's normal business hours and under reasonable circumstances.

(B) The Trustee shall furnish to the Corporation, within twenty (20) days after the end of each month, a complete financial statement (which need not be audited and may be its regular account statements) covering receipts, disbursements, allocation and application of any

moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to this Indenture for such month; *provided* that the Trustee shall not be obligated to deliver an accounting for any fund or account that has a balance of $0.00 and has not had any activity since the last reporting.

SECTION 6.04. Enforcement of Obligation No. 44. The Trustee shall promptly collect all amounts due from the Members pursuant to Obligation No. 44 and, subject to the specific provisions of this Indenture, may enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the obligations of the Corporation hereunder under Obligation No. 44.

SECTION 6.05. Replacement of Obligation No. 44 with Obligation Issued Under a Separate Master Indenture. Obligation No. 44 shall be surrendered by the Trustee and delivered to the Master Trustee for cancellation upon receipt by the Trustee of the following:

(A) A Request of the Corporation requesting such surrender and delivery and stating that the Corporation has become a member of an obligated group under a master indenture (other than the Master Indenture) (or an entity that, directly or indirectly, controls the Corporation has become a member of such an obligated group and the Corporation is obligated, by its articles of incorporation, by-laws or by contract or otherwise, to make payments to such controlling entity in amounts sufficient to enable the entity to make payments with respect to obligations issued under such master indenture), that no Event of Default exists or shall be caused thereby and that an obligation is being issued to the Trustee under such replacement master indenture (the "Replacement Master Indenture");

(B) An executed obligation (the "Replacement Obligation") issued under the Replacement Master Indenture and registered in the name of the Trustee with the same tenor and effect as Obligation No. 44 (in a principal amount equal to the then-Outstanding principal amount of Bonds), authenticated by the master trustee under the Replacement Master Indenture;

(C) An Opinion of Counsel selected by the Corporation to the effect that the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Corporation (or the entity that directly or indirectly controls the Corporation, if applicable) and each other obligated group member (if any) that is jointly and severally liable under the Replacement Master Indenture;

(D) A copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture;

(E) Any of the following:

(1) An Officer's Certificate showing that the Debt Service Coverage Ratio (as defined in the Master Indenture) for the most recently ended Fiscal Year of the Corporation was not less than 1.10; or

(2) Written confirmation from each Rating Agency then rating the Bonds that the replacement of Obligation No. 44 will not, by itself, result in a reduction in the then current ratings on the Bonds; or

(3) An Officer's Certificate certifying evidence (in the form of a rating letter or website listing maintained by a Rating Agency) that such Rating Agency has assigned and not suspended or withdrawn a rating on at least one outstanding series of long-term indebtedness secured under the Replacement Master Indenture in a Rating Category at least as high as the then-current Rating Category applicable to the Bonds immediately prior to the completion of such merger, affiliation, acquisition, or joint venture; and

(F) A certificate of the Master Trustee to the effect that Obligation No. 44 has been cancelled.

Upon satisfaction of such conditions, all references herein to Obligation No. 44 shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Master Indenture, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Master Indenture, all references to the Obligated Group and the Obligated Group Members shall be deemed to be references to the obligated group and the obligated group members under the Replacement Master Indenture and all references to Supplement No. 44 shall be deemed to be references to the supplemental master indenture pursuant to which the Replacement Obligation is issued.

SECTION 6.06. Representations and Warranties of the Corporation.

(A) Corporate Organization, Authorization and Powers. The Corporation represents and warrants that (i) it is a nonprofit public benefit corporation duly incorporated and validly existing under the laws of the State of California, (ii) it has the requisite legal right, power and authority to issue the Bonds and enter into the Indenture, Supplement No. 44 and Obligation No. 44 and to consummate the transactions contemplated hereby and thereby and (iii) by appropriate corporate action it has duly authorized the issuance of the Bonds and the execution, delivery and performance of the Bonds, the Indenture, Supplement No. 44 and Obligation No. 44.

(B) No Conflicts. The execution and delivery of the Bonds, this Indenture, Supplement No. 44 and Obligation No. 44 will not, and the consummation of the transactions contemplated hereby and thereby will not, conflict with or constitute, on the part of the Corporation, a breach of or default under its articles of incorporation, its by-laws or any material law, court order, administrative rule or regulation applicable to the Corporation or any material loan agreement, bond, debenture, note or other evidence of indebtedness or any material contract, agreement or lease to which the Corporation is a party or by which any material amount of the Corporation's property is bound.

(C) Securities Law Status. The Corporation represents and warrants that it is an organization organized and operated exclusively for charitable purposes and not for pecuniary profit; and that no part of its net earnings inures to the benefit of any Person, private stockholder or individual, all within the meaning of Section 3(a)(4) of the Securities Act. The Corporation shall not take any action or omit to take any action if such action or omission would change its status as set forth in this section.

(D) Maintenance of Corporate Existence. The Corporation shall maintain its existence under the laws of the State of California and shall not dissolve or dispose of all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (1) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in subsections (A) and (C) hereof, (2) the transaction does not result in a conflict, breach or default referred to in subsection (A) hereof, and (3) the surviving, resulting or transferee entity or entities each (a) assumes by written agreement with the Trustee all the obligations of the Corporation hereunder, (b) notifies the Trustee of any change in the name of the Corporation and (c) executes, delivers, registers, records and files such other instruments as the Trustee may reasonably require (which the Trustee is not required hereunder to so require) to confirm, perfect or maintain the security granted hereunder.

(E) Continuing Disclosure.

(1) The Corporation has entered into continuing disclosure undertakings (the "Continuing Disclosure Undertakings") in connection with tax-exempt revenue bonds issued for the benefit of the Corporation (the "Tax-Exempt Bonds"). Holders and prospective purchasers of the Bonds may obtain copies of the information provided by the Corporation under those Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). Each Continuing Disclosure Undertaking terminates when the related Tax-Exempt Bonds are paid or deemed paid in full. The Corporation covenants that, unless otherwise available on EMMA (or a successor thereto or to the functions thereof), copies of the Corporation's annual audited consolidated financial statements and certain quarterly unaudited consolidated financial information will either be posted on the Corporation's website or with Digital Assurance Certification, LLC or furnished to the Trustee. The sole and exclusive remedy for a breach of the covenant in this Section 6.06(E) is specific performance, and no person, including any Holder or Beneficial Owner of the Bonds, may recover monetary damages thereunder under any circumstances.

(2) If the Trustee receives such financial statements or financial information, the Trustee shall have no duty to review, verify or analyze such financial statements or financial information and shall hold such financial statements and financial information solely as a repository for the benefit of the Bondholders. The Trustee shall not be deemed to have notice of any information contained therein or Default or Event of Default which may be disclosed therein in any manner.

(F) Against Encumbrances. The Corporation shall not create or suffer to be created any pledge, lien, charge or other encumbrance upon all or any part of the Indenture Fund or any of the amounts held therein pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture and any statutory liens or other liens arising by operation of law. To the extent any such lien exists, the Corporation will,

at the Corporation's cost and expense, cooperate with the Trustee in contesting any pledge, lien, charge or other encumbrance that does not comply with the provisions of this subsection 6.06(F).

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 7.01. Events of Default. The following events shall be "Events of Default":

(A) default in the due and punctual payment of the principal, Redemption Price or Make-Whole 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;

(B) default in the due and punctual payment of any interest on any Bond when and as such interest shall become due and payable;

(C) default by the Corporation in the performance or observance of any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds (other than any covenant, agreement or condition a default in the performance or observance of which is specifically dealt with elsewhere in this Section 7.01 or in Section 6.06(E)), if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" under this Indenture, shall have been given to the Corporation by the Trustee, or to the Corporation and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding;

(D) the commencement by the Corporation of a voluntary case under the federal bankruptcy laws, or if the Corporation shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property;

(E) the appointment of a trustee, receiver, custodian or similar official or agent for the Corporation or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days;

(F) an order or decree for relief in an involuntary case under the federal bankruptcy laws shall be entered against the Corporation, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days; or

(G) an event of default under the Master Indenture.

Failure of the Corporation to make payment on the Bonds shall not constitute an Event of Default if timely payment is made by the Obligated Group on Obligation No. 44 in place of payment on the Bonds.

SECTION 7.02. Acceleration of Maturity. If an Event of Default shall occur, then, and in each case during the continuance of such Event of Default, the Trustee may, upon notice in writing to the Corporation, notify the Master Trustee of such Event of Default, make a demand for payment under Obligation No. 44 and request the Master Trustee in writing to give notice to the Members pursuant to Section 4.02 of the Master Indenture declaring the principal of all Obligations issued under the Master Indenture then outstanding and the interest accrued thereon to be due and payable immediately. Upon any such declaration by the Master Trustee and upon notice in writing to the Corporation, the Trustee shall declare the principal of the Bonds, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all the principal, Redemption Price or Make-Whole Redemption Price of, and overdue interest on, the Bonds, and the reasonable charges and expenses of the Trustee, and any and all other Defaults actually known to a Responsible Officer of 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 cured to the reasonable satisfaction of the Trustee or provision reasonably deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, by written notice to the Corporation, rescind and annul such declaration 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.

SECTION 7.03. Trustee to act as Holder of Obligation No. 44. In the event that any request, direction or consent is required or permitted by the Master Indenture to be given with respect to Obligation No. 44, the Trustee or its successor or assign shall be the registered owner of Obligation No. 44 for the purpose of any such request, direction or consent but shall act only at the direction or consent of the registered owners of a majority in principal amount of the Bonds Outstanding prior to providing such request, direction or consent, in accordance with the terms of this Indenture.

SECTION 7.04. Application of Moneys Collected by the Trustee. If an Event of Default shall occur and be continuing, all moneys then held or thereafter received by the Trustee under any of the provisions of this Indenture (subject to Section 11.09) shall be applied by the Trustee as follows and in the following order:

(A) 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 the reasonable fees and disbursements of its Counsel, advisors and agents) incurred in and about the performance of its powers and duties under this Indenture; and

(B) To the payment of the principal, Redemption Price or Make-Whole 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 this Indenture, as follows:

(1) 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 due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal, Redemption Price or Make-Whole 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 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, Redemption Price or Make-Whole Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) 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 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.

SECTION 7.05. Trustee to Represent Bondholders. The Trustee is hereby irrevocably appointed (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, this Indenture, Obligation No. 44 and applicable provisions of any law. 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 a majority 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 be deemed 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 herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Bonds, this

Indenture, Obligation No. 44 or any applicable law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the amounts pledged under this 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 greatest percentage (which percentage shall be, in any case, not less than a majority in aggregate principal amount) of the Bonds then Outstanding. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture.

SECTION 7.06. Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the time, method and place of conducting all remedial proceedings taken by the Trustee hereunder; *provided* that such direction shall not be otherwise than in accordance with law and the provisions of this 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 (the Trustee having no obligation to determine if such direction is unjustly prejudicial).

SECTION 7.07. 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 this Indenture, Obligation No. 44 or any 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 a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or Holders shall have offered to the Trustee indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and such offer of indemnity shall have been made to, the Trustee.

Such notification, request, offer of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Holders of Bonds, or to enforce any right under this Indenture or applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.08. Absolute Obligation of the Corporation. Notwithstanding any other provision of this Indenture or the Bonds, nothing shall affect or impair the obligation of

the Corporation, which is absolute and unconditional, to pay the principal, Redemption Price or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their date of maturity, or upon call for redemption, as herein provided, or, subject to Section 7.07, affect or impair the right of such Holders to enforce such payment pursuant to the terms of the Bonds.

SECTION 7.09. Termination of Proceedings. In case any proceedings taken by the Trustee 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 Corporation, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Corporation, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 7.10. Remedies Not Exclusive. No remedy herein 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 hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.11. Delay or Omission Not Waiver. 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 this 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.

SECTION 7.12. Waiver of Past Defaults. The Trustee may, and upon written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds, waive any past Default hereunder and its consequences, except a Default:

(A) In the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, or

(B) in respect of a covenant or other provision of this Indenture that, pursuant to Section 9.01, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected.

Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 7.13. Undertaking for Costs. Subject to the provisions of Section 8.06, the parties to this Indenture agree, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for

any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including the reasonable attorneys fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 7.13 shall not apply to any suit instituted by the Trustee or to any suit instituted by any Bondholder or group of Bondholders holding in the aggregate more than a majority in aggregate principal amount of the Outstanding Bonds.

SECTION 7.14. Notice of Default.

(A) Upon a Responsible Officer's actual knowledge of the existence of any Default under this Indenture, the Trustee shall notify the Corporation in writing as soon as practicable, but in any event within five (5) Business Days.

(B) Upon a Responsible Officer's actual knowledge of the existence of any Default under this Indenture, the Trustee shall transmit by mail to all Bondholders, as their names and addresses appear in the bond register, notice of such Default within sixty (60) days, unless such Default shall have been cured or waived; *provided*, however, that, except in the case of a Default in the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on any Bond, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; *provided*, *further*, that in the case of any Default as specified in Section 7.01(C) no such notice to Bondholders shall be given until at least thirty (30) days after the date of the applicable Notice of Default.

SECTION 7.15. Trustee May File Proofs of Claim.

(A) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Corporation or any other obligor upon the Bonds or the property of the Corporation or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Corporation for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(1) To file and prove a claim for the whole amount of principal (or Redemption Price or Make-Whole Redemption Price, as applicable) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents, including the reasonable and documented fees and expenses of outside Counsel and allocated costs of internal legal Counsel) and of the Bondholders allowed in such judicial proceeding; and

(2) To collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Bondholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents, including the reasonable and documented fees and expenses of outside Counsel and allocated costs of internal legal Counsel, and any other amounts due the Trustee under this Indenture.

(B) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt, on behalf of any Bondholder, 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 Bondholder in any such proceeding.

ARTICLE VIII

THE TRUSTEE

SECTION 8.01. Duties, Immunities and Liabilities of Trustee.

(A) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(B) The Corporation may remove the Trustee at any time, upon thirty (30) days' written notice, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee, upon thirty (30) days' written notice, if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (E) of this Section 8.01, or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(C) The Trustee may at any time resign by giving written notice of such resignation to the Corporation and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books of the Trustee. Upon receiving such notice of

resignation, the Corporation shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(D) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the outgoing Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Corporation and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Corporation shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Corporation shall mail or cause to be mailed (at the expense of the Corporation) a notice of the succession of such Trustee to the trusts hereunder to the Bondholders at the addresses shown on the registration books of the Trustee. If the Corporation fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Corporation.

(E) Any successor Trustee shall be a national banking association, trust company or bank having trust powers in the State of California or under the laws of the United States, having a combined capital and surplus of (or if such national banking association, trust company or bank is a member of a bank holding system, its bank holding company shall have a combined capital and surplus of) at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or State of California authority. If such national banking association, bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such national banking association, bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Trustee shall resign immediately in the manner and with the effect specified in this Section 8.01.

SECTION 8.02. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business; *provided* such company shall be eligible under subsection (E) of Section 8.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 8.03. Liability of Trustee.

(A) The Trustee assumes no responsibility for the correctness of the recitals of fact herein except as they specifically apply to the Trustee, and makes no representations as to the validity or sufficiency of this Indenture or of the Bonds, nor shall the Trustee incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it except for any recital or representation specifically relating to the Trustee or its powers. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligent action, negligent failure to act or willful misconduct. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and the Trustee shall not be answerable for other than its own negligent action, negligent failure to act or willful misconduct.

(B) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority (or such lesser or greater number as this Indenture may permit to direct the Trustee) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(C) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of this Indenture unless such Bondholders shall have offered to the Trustee indemnity satisfactory to the Trustee against the costs, expenses and liabilities which may be incurred therein or thereby. The Trustee has no obligation or liability to the Holders for the payment of interest, principal, Redemption Price or Make-Whole Redemption Price with respect to the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties hereunder.

(D) Except with respect to Events of Default specified in Section 7.01(A) or Section 7.01(B), the Trustee shall not be deemed to have knowledge of any Event of Default unless and until a Responsible Officer shall have actual knowledge thereof or the Trustee shall have received written notice thereof from the Corporation or the Holder of any Outstanding Bond at the Designated Office. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(E) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys, agents or receivers, and shall not

be answerable for the negligence or misconduct of any such attorney, agent or receiver selected by it with due care. The Trustee shall be entitled to advice of Counsel and other professionals concerning all matters of trust and its duty hereunder, but the Trustee shall not be answerable for the professional malpractice of any attorney-at-law or Accountant in connection with the rendering of his professional advice in accordance with the terms of this Indenture, if such attorney-at-law or Accountant was selected by the Trustee with due care.

(F) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys that shall be released or withdrawn in accordance with the provisions hereof.

(G) The Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. Force majeure shall include acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

(H) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provision of this Article VIII.

(I) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(J) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(K) [Reserved.]

(L) In connection with any transfer or exchange of Bonds, the transferor or owner shall provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045. The Trustee may rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information.

SECTION 8.04. Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, direction, instruction, consent, order, certificate, report, opinion, bond, statement, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with Counsel, who may be Counsel of or to the Corporation, with regard to legal questions, and the opinion or written advice of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any Person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such Person's title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Corporation, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions"), given pursuant to this Indenture and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); *provided*, *however*, that the Corporation shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Electronic Means Authorized Officers") and containing specimen signatures of such Electronic Means Authorized Officers, which incumbency certificate shall be amended by the Corporation whenever a person is to be added or deleted from the listing. If the Corporation elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The Corporation understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Electronic Means Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Electronic Means Authorized Officer. The Corporation shall be responsible for ensuring that only Electronic Means Authorized Officers transmit such Instructions to the Trustee and that the Corporation and all Electronic Means Authorized Officers are solely responsible for safeguarding the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions even if such directions conflict or are inconsistent with a subsequent written instruction. The Corporation agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Corporation; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

SECTION 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject, upon prior written notice, to the inspection of the Corporation and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

SECTION 8.06. Compensation and Indemnification. The Corporation further covenants and agrees to indemnify and hold harmless the Trustee, and its officers, directors, employees and agents, from and against any loss, expense, including the reasonable and documented legal fees and expenses, and liabilities that they may incur arising out of or in connection with (1) the exercise and performance of the Trustee's powers and duties hereunder in accordance with the provisions hereof or (2) the sale of any Bonds and the carrying out of any of the transactions contemplated by the Bonds or related documents, including the costs and expenses of defending against any claim of liability, but excluding liabilities that are due to the Trustee's negligence or willful misconduct. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency or other law. The obligations of the Corporation under this Section 8.06 shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

SECTION 8.07. Notice to Rating Agency. The Trustee shall give written notice to each Rating Agency then rating the Bonds if: (1) a successor Trustee is appointed hereunder, (2) this Indenture is amended or supplemented, (3) the Bonds are paid and this Indenture is defeased pursuant to Section 10.01, (4) the Bonds are accelerated pursuant to Section 7.02 or (5) the Bonds are redeemed in whole or in part pursuant to Section 4.01; *provided* that the Trustee shall incur no liability for failure to give any such notice.

SECTION 8.08. Trustee as Holder of Obligation No. 44; Consent to Amendment and Restatement of the Master Indenture. The Trustee hereby acknowledges: (i) that the purchasers, Beneficial Owners, and subsequent holders of the Bonds, by their purchase of the Bonds, have been deemed to consent to the amendment of the Master Indenture as set forth in the form of Second Amended and Restated Master Indenture of Trust (the "Second Amended and Restated Master Indenture"), which is attached as Appendix E to the Offering Memorandum, and (ii) that pursuant to such deemed consent the Trustee as Holder (as such term is defined in the Master Indenture) of Obligation No. 44 by acceptance of Obligation No. 44 has agreed to consent to amendment of the Master Indenture as set forth in the Second Amended and Restated Master Indenture when the Corporation shall request such consent from the Trustee pursuant to Section 6.02(b) of the Master Indenture. If, other than with respect to the consent described in the first sentence of this Section 8.08, the Trustee is required to provide an approval or a consent or to vote, as Holder of Obligation No. 44, the Trustee shall be entitled to request and receive the consent and/or direction of the Holders of a majority in principal amount of the Bonds Outstanding prior to providing such approval or consent or vote. Any such consent will be effective on the date of issuance of the Bonds, will be binding on any subsequent purchaser of any Bonds, and may not be revoked after the issuance of the Bonds.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

SECTION 9.01. Amendments Permitted.

(A) This Indenture and the rights and obligations of the Corporation 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 one or more Supplemental Indentures, which the Corporation and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been provided to the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any redemption price or premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund or the amounts pledged under this Indenture prior to or on parity with the lien created by this Indenture, or deprive the Holders of the Bonds of the lien created by this Indenture on the Indenture Fund and such amounts (except as expressly provided in this Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Corporation and the Trustee of any Supplemental Indenture pursuant to this subsection (A), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(B) This Indenture and the rights and obligations of the Corporation, 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 one or more Supplemental Indentures, which the Corporation and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, 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 Corporation contained in this Indenture, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Corporation; *provided* that such covenant, agreement, pledge, assignment or surrender shall not materially adversely affect the interests of the Holders of the Bonds, as evidenced by the Opinion of Counsel delivered pursuant to Section 9.01(D);

(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 this Indenture, or in regard to matters or questions arising under this Indenture, as the Corporation or the Trustee may deem necessary or desirable, and which shall not materially adversely affect the interests of the Holders of the Bonds, as evidenced by the Opinion of Counsel delivered pursuant to Section 9.01(D);

(3) to modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof 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 such act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds, as evidenced by the Opinion of Counsel delivered pursuant to Section 9.01(D);

(4) to provide for the procedures required to permit any Bondholder, at its option, to utilize an uncertificated system of registration of its Bond or to facilitate the registration of the Bonds in the name of a nominee of the Securities Depository in accordance with the provisions of Section 2.10;

(5) to authorize different denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(6) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds;

(7) to modify, amend or supplement any other provision of this Indenture in a manner that shall not materially adversely affect the interests of the Holders of the Bonds, as evidenced by the Opinion of Counsel delivered pursuant to Section 9.01(D); or

(8) to provide for the issuance of Additional Bonds.

(C) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (A) or (B) of this Section 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

(D) In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the exception of such supplemental indenture is authorized or permitted by this Indenture and complies with the terms hereof.

SECTION 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Corporation, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.03. Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article IX may, and if the Corporation so determines shall, bear a notation by endorsement or otherwise in form approved by the Corporation and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Holder of any Bond Outstanding at the time of such execution and presentation of such Bond for the purpose at the Designated Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bond. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Corporation (which may be based on an Opinion of Counsel, in the sole discretion of the Corporation), to any modification or amendment contained in such Supplemental Indenture, shall be prepared by the Trustee at the expense of the Corporation, executed by the Corporation and authenticated by the Trustee, and, subject to the provisions of Section 4.02 while the Bonds remain in the Book-Entry System, upon demand of the Holders of any Bonds then Outstanding shall be exchanged at the Designated Office of the Trustee, without cost to any Bondholder, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts of the same maturity.

SECTION 9.04. Amendment of Particular Bonds. The provisions of this Article IX shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder; *provided* that due notation thereof is made on such Bonds.

ARTICLE X

DEFEASANCE

SECTION 10.01. Discharge of Bonds and Indenture. The Bonds may be paid or discharged by the Corporation or the Trustee on behalf of the Corporation in any of the following ways:

(A) by paying or causing to be paid the principal, Redemption Price or Make-Whole Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03) 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 Corporation shall also pay or cause to be paid all other sums payable hereunder by the Corporation, then and in that case at the election of the Corporation (evidenced by a Certificate of the Corporation filed with the Trustee signifying the intention of the Corporation to discharge all such indebtedness and this Indenture and upon receipt by the Trustee of an Opinion of Counsel to the effect that the obligations under this Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, this

Indenture and the pledge of the Indenture Fund and all amounts held therein made under this Indenture and all covenants, agreements and other obligations of the Corporation under this Indenture (except as otherwise provided in Section 8.06) shall cease, terminate, become void and be completely satisfied and discharged and the Bonds shall be deemed paid. In such event, upon the request of the Corporation, the Trustee shall promptly cause an accounting for such period or periods as may be requested by the Corporation to be prepared and sent to the Corporation and shall execute and deliver to the Corporation all such instruments as may be necessary (and prepared by or on behalf of the Corporation) to evidence such satisfaction and discharge, and the Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to this Indenture that are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

SECTION 10.02. Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV or provision reasonably satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Corporation in respect of such Bond shall cease, terminate and be completely discharged, and the Bonds shall be deemed paid, except only that thereafter the Holder thereof shall be entitled to payment of the principal, Redemption Price or Make-Whole Redemption Price of and interest on such Bond by the Corporation, and the Corporation shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04.

The Corporation may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Corporation may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 10.03. Deposit of Money or Securities with Trustee. Whenever in this 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, such money or securities may include money or securities held by the Trustee in the funds and accounts established pursuant to this Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, 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 provided in Article IV or provision reasonably 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, Redemption Price or Make-Whole Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations, the principal of and interest on which when due will provide money sufficient to pay the principal, Redemption Price or Make-Whole Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the

case may be, on the Bonds to be paid or redeemed, as such principal, Redemption Price or Make-Whole 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 provided in Article IV or provision reasonably satisfactory to the Trustee shall have been made for the giving of such notice; *provided*, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Indenture or by direction of the Corporation) to apply such money to the payment of such principal, Redemption Price or Make-Whole Redemption Price and interest with respect to such Bonds.

The Trustee may rely on the verification report of a firm of nationally recognized verification agents or a firm of nationally recognized Accountants for verification of the amount of money or securities necessary to pay or redeem Bonds.

SECTION 10.04. Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of this Indenture, any moneys held by the Trustee in trust for the payment of the principal, Redemption Price or Make-Whole Redemption Price of, or interest on, any Bonds and remaining unclaimed for two years (or, if shorter, one day before such moneys would escheat to the State of California under then applicable California law) after such principal, Redemption Price, Make-Whole Redemption Price or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption), shall be repaid (without liability for interest) to the Corporation free from the trusts created by this Indenture upon receipt of an indemnification agreement acceptable to the Corporation and the Trustee indemnifying the Corporation and the Trustee with respect to claims of Holders of Bonds which have not yet been paid, and all liability of the Trustee and the Corporation with respect to such moneys shall thereupon cease; *provided*, *however*, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee may (at the cost of the Corporation) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books of the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented, and with respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. Successor is Deemed Included in All References to Predecessor. Whenever in this Indenture either the Corporation or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Corporation or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 11.02. Limitation of Rights to Parties and Bondholders. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Corporation, the Trustee and the Holders of the Bonds any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held

to be for the sole and exclusive benefit of the Corporation, the Trustee and the Holders of the Bonds.

SECTION 11.03. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 11.04. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to, or upon the order of, the Corporation of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds.

SECTION 11.05. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

SECTION 11.06. Notices. Any notice, direction, instruction or demand given or made pursuant to this Indenture shall be given or made in writing and shall be served by: (i) U.S. first-class mail, postage prepaid, addressed to the requisite party as set forth in this paragraph; (ii) hand delivery, addressed to the requisite party as set forth in this paragraph; or (iii) facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission addressed to the requisite party as set forth in this paragraph. Any notice, direction or instruction to or demand upon the Trustee shall be addressed to the Trustee at the Designated Office of the Trustee. Any notice to or demand upon the Corporation shall be addressed to the Corporation at: Stanford Health Care, 300 Pasteur Drive MC 5554, Stanford, California 94305, Attention: Treasurer (or such other addresses as may have been furnished in writing by the Corporation to the Trustee).

SECTION 11.07. Evidence of Rights of Bondholders.

(A) Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments and shall be signed or executed by such Bondholders themselves or by agents duly appointed in writing.

(B) The fact and date of the execution by any individual of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the individual signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

(C) The ownership of Bonds shall be proved by the registration books of the Trustee.

(D) Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Corporation in accordance therewith or reliance thereon.

SECTION 11.08. Disqualified Bonds. In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are actually known to a Responsible Officer of the Trustee to be owned or held by or for the account of the Corporation, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Corporation or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, unless all Bonds are so owned, in which case no Bonds shall be disregarded, except that in determining whether the Trustee shall be protected in making such a determination or relying upon any such consent or vote, only Bonds which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded unless one hundred percent (100%) of such Bonds are so owned, in which case no such Bonds shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 11.08 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Corporation or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of Counsel selected by it with due care shall be full protection to the Trustee. Upon request of the Trustee, the Corporation shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

SECTION 11.09. Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal, Redemption Price or Make-Whole Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held uninvested in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04.

SECTION 11.10. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of Section 6.03 and for the protection of the security of the Bonds and the rights of every Holder thereof. The Trustee may establish such additional funds and accounts as it deems necessary or appropriate to perform its obligations hereunder.

SECTION 11.11. Waiver of Personal Liability. No member, officer, agent or employee of the Corporation shall be individually or personally liable for the payment of the principal, Redemption Price or Make-Whole Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the

performance of any duty hereunder; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by this Indenture.

SECTION 11.12. Business Days. If any date specified herein shall not be a Business Day, any action required on such date may be made on the next succeeding Business Day with the same effect as if made on such date.

SECTION 11.13. Governing Law; Venue. This Indenture shall be construed in accordance with and governed by the Constitution and the laws of the State of California applicable to contracts made and performed in the State of California. This Indenture shall be enforceable in the State of California; *provided*, *however*, that any action arising hereunder shall (unless waived by the Corporation) be filed and maintained in the State of California.

SECTION 11.14. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Corporation and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 11.15. CUSIP Numbers. Neither the Trustee nor the Corporation shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Holders and that neither the Trustee nor the Corporation shall be liable for any inaccuracies in such numbers.

SECTION 11.16. Entire Agreement. This Indenture constitutes the entire agreement of the parties hereto and is not subject to modification, amendment, qualification or limitation except as expressly provided herein.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, Stanford Health Care has caused this Indenture to be executed in its name by its Authorized Representative, and U.S. Bank National Association, in acceptance of the trusts created hereunder, has caused this Indenture to be executed in its corporate name by its duly authorized officer, each as of the day and year first set forth above.

STANFORD HEALTH CARE

By _____
Name: Linda Hoff
Title: Authorized Representative

U.S. Bank National Association,
as Trustee

By _____
Authorized Officer

EXHIBIT A

[FORM OF BOND]

REGISTERED **REGISTERED**

No. R-1 $365,100,000

UNITED STATES OF AMERICA

STANFORD HEALTH CARE TAXABLE BOND
SERIES 2021

INTEREST RATE	**MATURITY DATE**	**ISSUE DATE**	**CUSIP**
3.027%	August 15, 2051	April 30, 2021	85434VAC2

REGISTERED OWNER: CEDE & CO

PRINCIPAL AMOUNT: $365,100,000

STANFORD HEALTH CARE, a California nonprofit public benefit corporation (the "Corporation"), for value received, hereby promises to pay, in lawful money of the United States of America, to the Registered Owner specified above, or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter mentioned), the principal amount specified above, and to pay interest on such principal amount on August 15, 2021 and semiannually thereafter on each February 15 and August 15 (each, an "Interest Payment Date") until payment of such principal amount shall be discharged as provided in the Indenture (as defined below). This Series 2021 Bond shall bear interest at the rate set forth above from the later of (i) April 30, 2021 and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. The principal, Redemption Price or Make-Whole Redemption Price (each as defined below) hereof is payable to the Holder hereof upon presentation and surrender hereof at the Designated Office of U.S. Bank National Association (together with any successor trustee as provided in the Indenture, the "Trustee") or, in the case of a successor Trustee, at the designated office of such successor Trustee. The Bonds are issuable as fully registered Bonds in "Authorized Denominations" of $1,000 or any integral multiple thereof.

Payment of the interest on each Interest Payment Date shall be made to the Holder hereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed on the applicable Interest Payment Date by first class mail to such Holder at its address as it appears on the registration books of the Trustee, or, upon the written request of any Holder of at least $1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one (1) Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States of America designated by such Holder. Except with respect to defaulted interest (for which a special record date will be established), as used herein, "Record Date" means, with respect to each Interest Payment Date, the first (1st) day

(whether or not a Business Day) of the calendar month during which such Interest Payment Date occurs. As long as the Securities Depository or its nominee is the Holder of all or part of the Bonds in book-entry form, such principal, Redemption Price or Make-Whole Redemption Price and interest payments shall be made to the Securities Depository by wire transfer in immediately available funds. Interest on the Bonds shall be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

This Bond is one of a duly authorized issue of bonds of the Corporation designated as "Stanford Health Care Taxable Bonds, Series 2021" (the "Series 2021 Bonds"), issued pursuant to an Indenture of Trust, dated as of April 1, 2021, between the Corporation and the Trustee (the "Indenture"). The Series 2021 Bonds and any Additional Bonds issued pursuant to the Indenture are referred to herein as the "Bonds." Capitalized terms used herein but not defined herein have the meanings assigned to them in the Indenture.

The Bonds and the interest thereon are payable from amounts paid to the Trustee by the Corporation pursuant to the Indenture for deposit in the Indenture Fund (as defined in the Indenture) and are secured by a pledge and assignment of the Indenture Fund and all amounts held therein by the Trustee for the benefit of the Bondholders, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes of and on the terms and conditions set forth in the Indenture. The Bonds are further secured by Obligation No. 44 and issued by the Corporation pursuant to the terms of the Master Indenture and Supplement No. 44.

Interest payable on any Bond shall cease to accrue (i) on the maturity date of such Bond, provided that there has been irrevocably deposited with the Trustee an amount sufficient to pay the principal amount thereof, plus interest thereon to such date; or (ii) on the date fixed for redemption thereof, provided that there has been irrevocably deposited with the Trustee an amount sufficient to pay the Redemption Price or Make-Whole Redemption Price (as applicable) thereof. The owner of such Bond shall not be entitled to any other payment for such Bond, and such Bond shall no longer be outstanding and entitled to the benefits of the Indenture, except for such payment from moneys held by the Trustee for such purpose.

This Series 2021 Bond has been executed by the Trustee pursuant to the terms of the Indenture. Copies of the Indenture are on file at the Designated Office of the Trustee (or, in the case of a successor Trustee, at the Designated Office of such successor Trustee), and reference is made to the Indenture and any and all amendments thereof for a description of the pledges and covenants securing the Bonds, the nature, extent and manner of enforcement of such pledges and covenants, the rights and remedies of the registered Holders of the Bonds with respect thereto and the other terms and conditions upon which the Bonds are delivered thereunder.

On or after the Par Call Date, the Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Corporation to the Trustee, on any Business Day, as directed by the Corporation, at the Redemption Price. "Redemption Price" means 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on such Bonds to, but excluding, the redemption date. "Par Call Date" means February 15, 2051.

Prior to the Par Call Date, the Bonds are subject to optional redemption prior to maturity, in whole or in part, at the written direction of the Corporation to the Trustee, on any

Business Day, as directed by the Corporation, at the Make-Whole Redemption Price. "Make-Whole Redemption Price" means the greater of (1) 100% of the principal amount of the Bonds to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed (not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed), discounted to the date on which the Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 40 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed to, but excluding, the redemption date. "Treasury Rate" means, with respect to any redemption date, the rate per annum equal to (i) the semiannual equivalent yield to maturity or (ii) if no such semiannual equivalent yield to maturity is available, the interpolated yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. "Comparable Treasury Issue" means the United States Treasury security or securities selected by a Designated Investment Banker (as defined in the Indenture) as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds. "Comparable Treasury Price" means, with respect to any redemption date, the average of the Primary Treasury Dealer Quotations (as defined in the Indenture) for such redemption date or, if the Designated Investment Banker obtains only one Primary Treasury Dealer Quotation, such Primary Treasury Dealer Quotation.

As long as the Securities Depository or its nominee is the Holder of all of the Bonds in book-entry form, if less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with the customary procedures and operational arrangements of the Securities Depository, provided that if the Securities Depository's operational arrangements at such time do not allow for redemption on a pro rata pass-through distribution of principal basis, the Bonds shall be selected for redemption, in accordance with the customary procedures of the Securities Depository, by lot.

If the Securities Depository or its nominee is no longer the Holder of all of the Bonds, if less than all of the Bonds are called for redemption, the Trustee shall select the Bonds to be redeemed on a pro rata basis.

As provided in the Indenture, notice of redemption shall be mailed or sent by Electronic Means by the Trustee, as directed by the Corporation, by first class mail, not less than twenty (20) days nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. If this Series 2021 Bond is called for redemption and payment is duly provided as specified in the Indenture, interest shall cease to accrue with respect hereto from and after the date fixed for redemption.

The Bonds are subject to mandatory purchase in lieu of redemption, in whole or in part, pursuant to the Indenture.

This Series 2021 Bond is transferable by the registered Holder hereof, in person or by the registered Holder's attorney duly authorized in writing, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture and upon surrender and cancellation of this Series 2021 Bond. Upon such transfer, a new Bond or Bonds, for the same aggregate principal amount, having the same maturity date and in Authorized Denominations, will be issued to the transferee in exchange herefor. Subject to the limitations and conditions and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged for the same aggregate principal amount of fully registered Bonds of other Authorized Denominations.

Each purchaser and transferee, by its purchase or acceptance of this Series 2021 Bond, shall be deemed to have represented and covenanted, that either (A) it is not acquiring this Series 2021 Bond for or on behalf of a Benefit Plan (as defined below) or (B) the purchase and holding of this Series 2021 Bond for or on behalf of a Benefit Plan will not constitute a non-exempt prohibited transaction under Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or a violation of any Similar Laws (as defined below). For purposes of this paragraph, the term "Benefit Plan" means, collectively, (i) any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (ii) any plan (as defined in Section 4975(e)(1) of the Code), including an individual retirement account under Section 408 of the Code, to which Section 4975 of the Code applies, (iii) any entity the underlying assets of which are considered to include "plan assets" of any plans described in subsections (i) or (ii) (as determined pursuant to U.S. Department of Labor regulations at 29 CFR 2510.3-101, as modified by Section 3(42) of ERISA) or (iv) any plan, including a foreign plan, governmental plan (as defined in Section 3(32) of ERISA) or church plan (as defined in Section 3(33) of ERISA) that is not subject to Title I of ERISA, but that is subject to any federal, state, local, non-U.S. or other laws or regulations that are similar to Title I of ERISA or Section 4975 of the Code ("Similar Laws"). The Trustee shall not be responsible for determining the accuracy of the representations and covenants described in this paragraph.

The Trustee shall not be required to transfer or exchange (i) any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption or (ii) any Bond called for redemption.

The Corporation and the Trustee shall treat the registered owner hereof as the absolute owner hereof for all purposes, and the Corporation and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Corporation and of the registered owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (i) extend the fixed maturity of any Bond, or reduce the amount of principal hereof, or reduce the rate of interest hereon, or extend the time of payment of interest hereon, or reduce any redemption price or premium payable upon the redemption hereof, without the consent of the registered owner hereof, or (ii) reduce the percentage of Bonds the consent of the registered owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund or the amounts 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 the Indenture Fund and such amounts (except as expressly provided in the Indenture), without the consent of the registered owners of all Bonds then outstanding, all as more fully set forth in the Indenture.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Series 2021 Bond do exist, have happened and have been performed in due time, form and manner as required by the Indenture.

This Series 2021 Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually or electronically signed by the Trustee.

IN WITNESS WHEREOF, STANFORD HEALTH CARE has caused this Series 2021 Bond to be executed in its name and on its behalf by the manual or facsimile signature of its Authorized Representative as of the date first set forth above.

STANFORD HEALTH CARE

By _____
Name: Linda Hoff
Title: Authorized Representative

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION]

This is one of the Bonds described in the within-mentioned Indenture, and this Series 2021 Bond has been registered on the date set forth below.

U.S. Bank National Association,
as Trustee

By_____
Authorized Signatory

Date of authentication:

[FORM OF ASSIGNMENT]

For value received, the undersigned do(es) hereby sell, assign and transfer unto _____the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s)_____, attorney, to transfer the same on the books of the within-named Trustee, with full power of substitution in the premises.

Dated:_____ By _____

Signature Guaranteed By:

_____

NOTICE: Signature must be guaranteed by a Participant in a Recognized Signature Guaranty Medallion Program.

APPENDIX E

FORM OF SECOND AMENDED AND RESTATED MASTER INDENTURE OF TRUST

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Second Amended and Restated Master Indenture of Trust

Between

Stanford Hospital and Clinics

and

The Bank of New York Mellon Trust Company, N.A.,
as Master Trustee

Dated as of ____ _, ___

Amending and Restating
Amended and Restated Master Indenture of Trust dated as of June 1, 2011

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Table of Contents

Page

ARTICLE I DEFINITIONS AND INTERPRETATION 2

Section 1.01. Definitions 2
Section 1.02. Interpretation 17
Section 1.03. References to Master Indenture 17
Section 1.04. Contents of Certificates; Use of GAAP 17

ARTICLE II AUTHORIZATION AND ISSUANCE OF OBLIGATIONS 18

Section 2.01. Authorization of Obligations 18
Section 2.02. Issuance of Obligations 18
Section 2.03. Appointment of Obligated Group Representative 19
Section 2.04. Execution and Authentication of Obligations 19
Section 2.05. Conditions to the Issuance of Obligations 19

ARTICLE III PAYMENTS; OBLIGATED GROUP COVENANTS 20

Section 3.01. Payment of Required Payments 20
Section 3.02. Maintenance of Properties; Payment of Indebtedness 21
Section 3.03. Insurance Required 23
Section 3.04. Against Encumbrances 23
Section 3.05. Reserved 24
Section 3.06. Gross Receivables Pledge 24
Section 3.07. Debt Coverage 24
Section 3.08. Reserved 25
Section 3.09. Reserved 25
Section 3.10. Merger, Consolidation, Sale or Conveyance 25
Section 3.11. Preparation and Filing of Financial Statements, Certificates and Other Information 26
Section 3.12. Membership in Obligated Group 28
Section 3.13. Withdrawal from Obligated Group 28

ARTICLE IV DEFAULTS 29

Section 4.01. Events of Default 29
Section 4.02. Acceleration; Annulment of Acceleration 30
Section 4.03. Additional Remedies and Enforcement of Remedies 31
Section 4.04. Application of Moneys After Default 32
Section 4.05. Remedies Not Exclusive 33
Section 4.06. Remedies Vested in the Master Trustee 33
Section 4.07. Master Trustee to Represent Holders 34
Section 4.08. Holders' Control of Proceedings 34
Section 4.09. Termination of Proceedings 34
Section 4.10. Waiver of Event of Default 34
Section 4.11. Appointment of Receiver 35
Section 4.12. Remedies Subject to Provisions of Law 35
Section 4.13. Notice of Default 35

Table of Contents

Page

Section 4.14. Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies 35

ARTICLE V THE MASTER TRUSTEE 36

Section 5.01. Certain Duties and Responsibilities; Liability of Master Trustee....36
Section 5.02. Certain Rights of Master Trustee....37
Section 5.03. Right to Deal in Obligations and Related Bonds....39
Section 5.04. Removal and Resignation of the Master Trustee....39
Section 5.05. Compensation and Reimbursement....40
Section 5.06. Recitals and Representations....40
Section 5.07. Separate or Co-Master Trustee....41
Section 5.08. Merger or Consolidation....42

ARTICLE VI SUPPLEMENTS AND AMENDMENTS.... 42

Section 6.01. Supplements Not Requiring Consent of Holders....42
Section 6.02. Supplements Requiring Consent of Holders....43
Section 6.03. Execution and Effect of Supplements....44
Section 6.04. Amendment of Related Supplements....45

ARTICLE VII SATISFACTION AND DISCHARGE 45

Section 7.01. Satisfaction and Discharge of Master Indenture....45
Section 7.02. Payment of Obligations After Discharge of Lien....46

ARTICLE VIII MISCELLANEOUS PROVISIONS.... 46

Section 8.01. Limitation of Rights....46
Section 8.02. Severability....46
Section 8.03. Holidays....46
Section 8.04. Credit Enhancer Deemed Holder of Obligation....47
Section 8.05. Governing Law....47
Section 8.06. Counterparts....47
Section 8.07. Immunity of Individuals....47
Section 8.08. Binding Effect....47
Section 8.09. Notices....47
Section 8.10. Effectiveness....48

Exhibit A Existing Financial Products Agreements....A-1
Exhibit B Existing Obligations....B-1
Exhibit C Existing Parity Financial Product Extraordinary Payments....C-1
Exhibit D Description of Excluded Property....D-1

Second Amended and Restated Master Indenture of Trust

This **Second Amended and Restated Master Indenture of Trust**, dated as of _____ 1, 2020, between **Stanford Health Care**, formerly known as **Stanford Hospital and Clinics,** a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and **The Bank of New York Mellon Trust Company, N.A.,** a national banking association duly organized and existing under the laws of the United States of America and being qualified to accept and administer the trusts hereby created, as master trustee, amends and restates the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (as supplemented and amended to the date hereof, the "Existing Master Indenture"), between The Bank of New York Trust Company, N.A., as master trustee;

W I T N E S S E T H:

WHEREAS, in order to provide for the issuance from time to time of obligations to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes, the Corporation entered into the Existing Master Indenture;

WHEREAS, in accordance with Section 6.02 of the Existing Master Indenture, the holders of not less than a majority in aggregate principal amount of obligations outstanding shall have the right to consent to and approve the execution by the Corporation, acting as obligated group representative (the Corporation acting in such capacity being hereinafter referred to as the "Obligated Group Representative") of such Related Supplements (as such term is defined in the Existing Master Indenture) as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Existing Master Indenture, subject to such exceptions as are set forth in Section 6.02 of the Existing Master Indenture;

WHEREAS, in order to provide for changes to reflect current market standards, the Corporation, acting as Obligated Group Representative, has caused this Second Amended and Restated Master Indenture of Trust to be prepared;

WHEREAS, this Second Amended and Restated Master Indenture of Trust amends and restates the Existing Master Indenture in its entirety;

WHEREAS, this Second Amended and Restated Master Indenture of Trust constitutes a Related Supplement as such term is defined in the Existing Master Indenture;

WHEREAS, as required pursuant to Section 6.02 of the Existing Master Indenture, the Corporation has secured the consent of the holders of not less than a majority in aggregate principal amount of obligations outstanding to amendment and restatement of the Existing Master Indenture as set forth in this Second Amended and Restated Master Indenture of Trust;

WHEREAS, the Corporation hereby certifies that: (i) all acts and things necessary to constitute this Second Amended and Restated Master Indenture of Trust a valid indenture and agreement according to its terms having been done and performed; (ii) the Corporation has duly

authorized the execution and delivery of this Second Amended and Restated Master Indenture of Trust; and (iii) the Corporation proposes to enter into supplements hereto with The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee") to provide for the issuance from time to time of obligations to be secured hereunder to provide for the financing or refinancing of the acquisition, construction, equipping or improvement of health care or other facilities, or for other lawful and proper corporate purposes; and

WHEREAS, the Master Trustee agrees to accept and administer the trusts created hereby;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby created, and of the giving of consideration for and acceptance of the obligations issued under the Existing Master Indenture, as amended and restated by this Second Amended and Restated Master Indenture of Trust, by the holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which obligations are to be issued, authenticated, delivered and accepted by all persons who shall from time to time be or become holders thereof, the Corporation covenants and agrees with the Master Trustee for the equal and proportionate benefit of the respective holders from time to time of obligations issued under the Existing Master Indenture, as amended and restated by this Second Amended and Restated Master Indenture of Trust, as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Second Amended and Restated Master Indenture of Trust (as more fully defined in Section 1.01 hereof, this "Master Indenture") and of any Related Supplement issued hereafter and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, equally applicable to both singular and plural forms of any of the terms herein defined.

Accountant means any independent certified public accountant or firm of independent certified public accountants selected by the Obligated Group Representative.

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

Annual Debt Service means for each Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Obligated Group then Outstanding (by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price coming due as a result of a mandatory or optional tender or put), less any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal or interest; provided that if a Financial Products Agreement is being entered into by any Obligated Group Member concurrently or substantially concurrently with the incurrence of Long-Term

Indebtedness and with respect to such Long-Term Indebtedness or if a Financial Products Agreement has been entered into by any Obligated Group Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under a Financial Products Agreement payable in such Fiscal Year minus any Financial Product Receipts under a Financial Products Agreement receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service. For purposes of computing Annual Debt Service, the following principles and assumptions shall be applied.

(a) with respect to a Guaranty, there shall be included in the calculation of Annual Debt Service the amount of the Annual Debt Service (calculated as if such Person were a Obligated Group Member) paid by the Obligated Group Members under the Guaranty 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 by application of a variable interest rate), the interest rate on such Long-Term Indebtedness (or the applied variable rate 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 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); and

(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 the later of thirty (30) years or maturity of the Balloon Indebtedness (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).

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

Authorized Representative means with respect to each Obligated Group Member, the chair of its Governing Body, its president or chief executive officer, its chief financial officer or any other person designated as an Authorized Representative of such Obligated Group Member by a Certificate of that Obligated Group Member signed by the chair of its Governing Body, its president or chief executive officer, or its chief financial officer and filed with the Master Trustee.

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

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

Certificate, **Statement**, **Request**, **Consent** or **Order** of any Obligated Group Member or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Obligated Group Member by an Authorized Representative or in the name of the Master Trustee by a Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any

other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.04 hereof, each such instrument shall include the statements provided for in Section 1.04.

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

Corporate Trust Office means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located at 400 South Hope Street, Suite 500, 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 corporation duly organized and existing under the laws of the State of California, and its successors.

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

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

ERISA means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

Event of Default means any of the events specified in Section 4.01 hereof.

Excluded Property means the property described on Exhibit D hereto.

Existing Financial Products Agreements means the Financial Products Agreements listed on Exhibit A attached hereto.

Existing Master Indenture shall have the meaning assigned thereto in the recitals hereof.

Existing Parity Financial Product Extraordinary Payments means the Parity Financial Product Extraordinary Payments listed on Exhibit C attached hereto.

Existing Obligations means the Obligations listed on Exhibit B attached hereto.

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

(1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a member of the Appraisal Institute and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such

appraisal shall be performed by an Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee;

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

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

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

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

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

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

Financial Statements means financial statements complying with the provisions set forth in Section 3.11(b)(1).

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

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

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

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

Government Obligations means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest rating categories of a Rating Agency (without regard to any gradation of such rating category); (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

Gross Receivables means all accounts and health-care-insurance receivables (as such terms are defined in the UCC), whether now existing or hereafter created or arising, and proceeds thereof.

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

Holder means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

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

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

(a) any revenue or expense of a Person which is not a Member of the Obligated Group;

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;

(c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;

(d) any gain or loss resulting from the extinguishment of Indebtedness;

(e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;

(f) any gain or loss resulting from any discontinued operations;

(g) any gain or loss resulting from pension terminations, settlements or curtailments;

(h) any unusual charges for employee severance;

(i) adjustments to the value of assets or liabilities resulting from changes in GAAP;

(j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value;

(k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, including, without limitation, any Financial Products Agreement;

(l) any Financial Product Extraordinary Payments or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Products Agreement;

(m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets;

(n) changes in the share value of investment pools held or managed by Stanford University; or

(o) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

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

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

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

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

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

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

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

Master Indenture means this Second Amended and Restated Master Indenture of Trust, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms hereof.

Master Trustee means The Bank of New York Mellon Trust Company, N.A., a national banking association organized under the laws of the United States of America, and, subject to the limitations contained in Section 5.07, any other corporation or association that may be co-trustee with the Master Trustee, and any successor or successors to said trustee or co-trustee in the trusts created hereunder.

Member means an Obligated Group Member.

Merger Transaction has the meaning set forth in Section 3.10.

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

Obligated Group means all Obligated Group Members.

Obligated Group Member means the Corporation and each other Person which is obligated hereunder to the extent and in accordance with the provisions of Sections 3.05 and 3.12 hereof, from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of Section 3.13 hereof, from and after the date of such withdrawal.

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

Obligation means each of the Existing Obligations and any obligation of the Obligated Group issued pursuant to Section 2.02 hereunder, as a joint and several obligation of each Obligated Group Member, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Products Agreements or leases. Reference to a Series of Obligations or to

Obligations of a Series means Obligations or a Series of Obligations issued pursuant to a single Related Supplement.

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

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

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

Outstanding, when used with reference to Indebtedness or Obligations, means, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation or otherwise deemed paid in accordance with the terms hereof, including, without limitation, Obligations securing Related Bonds which have been defeased pursuant to their terms, (2) Obligations in lieu of which other Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (3) any Obligation held by any Obligated Group Member, (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof, and (5) Indebtedness for which there has been an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of calculating compliance with the various financial covenants contained herein, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation which produces the greatest amount of Annual Debt Service to be included in the calculation of such covenants.

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

Permitted Liens means and includes:

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

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

(c) Any Lien in favor of the Master Trustee securing all Outstanding Obligations equally and ratably;

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

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

(f) Any Lien arising by reason of any escrow or reserve fund established to pay debt service with respect to Indebtedness;

(g) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

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

(i) Liens on Property received by any Obligated Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;

(j) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Member of the Obligated Group under federal or State of California statutes;

(k) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that the aggregate principal amount of such new Indebtedness does not exceed the aggregate principal amount of such refinanced Indebtedness;

(l) Liens granted by an Obligated Group Member to another Obligated Group Member;

(m) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions hereof;

(n) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;

(o) Liens on the Obligated Group Members' accounts receivable, provided that at the time of creation of such Lien, the Indebtedness secured by any such Lien shall not exceed thirty percent (30%) of the Obligated Group Members' net accounts receivable as shown on the most recent Financial Statements available at the time of incurrence of the Indebtedness to be secured by such Lien, and provided further that no more than thirty percent (30%) of the Obligated Group Members' net accounts receivable can be utilized for such securitization;

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

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

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

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

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

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

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

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

(x) Deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease (other than a lease that is treated as Indebtedness under GAAP), and other similar obligations incurred in the ordinary course of business of an Obligated Group Member;

(y) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of an Obligated Group Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(z) Present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Obligated Group Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used;

(aa) Liens junior to Liens in favor of the Master Trustee;

(bb) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Obligated Group Member under a Financial Products Agreement;

(cc) Liens or encumbrances contemplated by or created in connection with or arising out of the Lease; and

(dd) Any other Lien on Property, provided that at the time of creation of such Lien the Value of all Property encumbered by all Liens permitted as described in this clause (dd) does not exceed thirty percent (30%) of the total Value of all Property of the Obligated Group Members as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year available at the time of creation of such Lien.

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

Property means any and all rights, titles and interests in and to any and all assets of any Obligated Group Member, whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of any Obligated Group Member which is considered property, plant and equipment of such Obligated Group Member under GAAP.

Qualified Provider means any financial institution or insurance company or corporation which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary) are rated in one of the three highest rating categories of a Rating Agency (without regard to any gradation or such rating category) at the time of the execution and delivery of the Financial Products Agreement.

Rating Agency means Fitch Inc., Moody's Investors Service, Inc., Standard & Poor's, a division of The McGraw-Hill Companies, and any other national rating agency then rating Obligations or Related Bonds.

Rating Category means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Related Bonds means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to an Obligated Group Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

Related Bond Indenture means any indenture, bond resolution, trust agreement, or other comparable instrument pursuant to which a series of Related Bonds are issued.

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

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

Required Payment means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, Financial Product Payments,

Financial Product Extraordinary Payments, now or hereafter required to be made by any Obligated Group Member under this Master Indenture or any Related Supplement or any Obligation.

Responsible Officer means, with respect to the Master Trustee, the president, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any senior associate, any associate or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject.

Restricted Assets means any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or the payment of operating expenses.

Short-Term Indebtedness means all (i) Indebtedness having an original maturity less than or equal to one year and not renewable at the option of an Obligated Group Member for a term greater than one year from the date of original incurrence or issuance or (ii) Indebtedness with a maturity or renewable at the option of a Obligated Group Member with a term greater than one year, if by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness hereunder and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Commercial Paper Indebtedness shall not constitute Short-Term Indebtedness for any purpose under this Master Indenture.

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available SIFMA Swap Index shall refer to an index selected by the Obligated Group Representative, with the advice of an investment banking or financial services firm knowledgeable in health care matters.

Stanford University means The Board of Trustees of The Leland Stanford Junior University, a body having corporate powers under the Constitution and laws of the State of California.

Subordinate Financial Product Extraordinary Payment means any Financial Product Extraordinary Payment other than a Parity Financial Product Extraordinary Payment.

Subordinated Indebtedness means Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Obligated Group Members under this Master Indenture.

Surviving Entity has the meaning set forth in Section 3.10.

Total Revenues means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, capitation or premium revenue and other revenue) and nonoperating gains (losses), as shown on the Financial Statements of the Obligated Group for the most recent Fiscal Year.

UCC means the Uniform Commercial Code of the State of California, as amended from time to time.

Value, when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Obligated Group Representative, at either its Fair Market Value or its Book Value.

Section 1.02. Interpretation.

(a) Any reference herein to any officer of an Obligated Group Member shall include those succeeding to the functions, duties or responsibilities of such officer pursuant to or by operation of law or who are lawfully performing the functions of such officer.

(b) Unless the context otherwise indicates, words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. The singular shall include the plural and vice versa.

(c) Headings of Articles and Sections herein and the table of contents hereto are solely for convenience of reference, and do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

Section 1.03. References to Master Indenture. The terms "hereby," "hereof," "hereto," "herein," "hereunder," and any similar terms, used in this Master Indenture refer to this Master Indenture.

Section 1.04. Contents of Certificates; Use of GAAP.

(a) Every Certificate provided for herein with respect to compliance with any provision hereof shall include: (a) a statement that the Person making or giving such certificate has read such provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate is based; (c) a statement that, in the opinion of such Person, such Person has made, or caused to be made, such examination or investigation as is necessary to enable such Person to provide the certificate with respect to the subject matter referred to in the instrument to which such Person's signature is affixed; and (d) a statement as to whether, in the opinion of such Person, such provision has been satisfied.

(b) Any such Certificate made or given by an officer of an Obligated Group Member or the Master Trustee may be based, insofar as it relates to legal, accounting or health care matters, upon a Certificate or opinion or representation of counsel, an Accountant or Independent Consultant unless such officer knows, or in the exercise of reasonable care should have known, that the Certificate, opinion or representation with respect to the matters upon which such Certificate or opinion may be based, as aforesaid, is erroneous. Any such Certificate, opinion or

representation made or given by counsel, an Accountant or an Independent Consultant, may be based, insofar as it relates to factual matters (with respect to which information is in the possession of any Obligated Group Member) upon the Certificate or opinion of, or representation by an officer of any Obligated Group Member unless such counsel, Accountant or Independent Consultant knows, or in the exercise or reasonable care should have known, that the Certificate, opinion of or representation by such officer, with respect to the factual matters upon which such Person's Certificate or opinion may be based, is erroneous. The same officer of any Obligated Group Member or the same counsel or Accountant or Independent Consultant, as the case may be, need not certify as to all the matters required to be certified under any provision hereof, but different officers, counsel, Accountants or Independent Consultants may certify as to different matters.

(c) Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, such determination or computation shall be done in accordance with GAAP in effect on, at the sole option of the Obligated Group Representative, (i) the date such determination or computation is made for any purpose of this Master Indenture or (ii) the date of execution and delivery of this Master Indenture if the Obligated Group Representative delivers an Officer's Certificate to the Master Trustee describing why then current GAAP is inconsistent with the intent of the parties on the date of execution and delivery of this Master Indenture; provided (i) that intercompany balances and liabilities among the Obligated Group Members shall be disregarded and (ii) that the requirements set forth herein shall prevail if inconsistent with GAAP.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF OBLIGATIONS

Section 2.01. Authorization of Obligations. Each Obligated Group Member hereby authorizes to be issued from time to time Obligations or Series of Obligations, without limitation as to amount, except as provided herein or as may be limited by law, and subject to the terms, conditions and limitations established herein and in any Related Supplement.

Section 2.02. Issuance of Obligations. From time to time when authorized by this Master Indenture and subject to the terms, limitations and conditions established in this Master Indenture or in a Related Supplement, the Obligated Group Representative may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement. The Obligation or the Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions hereof and of any Related Supplement.

Each Related Supplement authorizing the issuance of an Obligation or a Series of Obligations shall specify the purposes for which such Obligation or Series of Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations; the date or dates of maturity or other final expiration of the term of such Obligations, if applicable; the date of issuance of such Obligations; and any other provisions deemed advisable or necessary by the Obligated Group Representative. Each Related Supplement authorizing the

issuance of an Obligation shall also specify and determine the principal amount of such Obligation (if any) for purposes of calculating the percentage of Holders of Obligations required to take actions or give consents pursuant to this Master Indenture, which, if such Obligation does not evidence or secure Indebtedness, shall be equal to zero, except as is otherwise provided in Section 6.02(a). The designation of zero as a principal amount of an Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Obligation.

Section 2.03. Appointment of Obligated Group Representative. Each Obligated Group Member, by becoming an Obligated Group Member, irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants full power to the Obligated Group Representative to (a) execute Related Supplements authorizing the issuance of Obligations or Series of Obligations and (b) issue Obligations.

Section 2.04. Execution and Authentication of Obligations.

(a) All Obligations shall be executed by an Authorized Representative of the Obligated Group Representative for and on behalf of the Obligated Group as provided in the Related Supplement authorizing such Obligation. The signature of such Authorized Representative may be mechanically or photographically reproduced on the Obligations. If any Authorized Representative whose signature appears on any Obligation ceases to be such Authorized Representative before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such Authorized Representative had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized signatory of the Master Trustee, and no Obligation shall be entitled to the benefits hereof without such authentication.

(b) The form of Certificate of Authentication to be printed on each Obligation and manually executed by an authorized signatory of the Master Trustee shall be as follows:

[FORM OF MASTER TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

The undersigned Master Trustee hereby certifies that this Obligation No. ___ is one of the Obligations described in the within mentioned Master Indenture.

Dated: _____

[Name of Master Trustee]

By_____
Authorized Signatory

Section 2.05. Conditions to the Issuance of Obligations. The issuance, authentication and delivery of any Obligation or Series of Obligations shall be subject to the following specific conditions:

(a) The Obligated Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Obligations and the repayment thereof; and

(b) The Master Trustee receives an Officer's Certificate to the effect that:

(1) each Obligated Group Member is in full compliance with all warranties, covenants and agreements set forth in this Master Indenture and in any Related Supplement; and

(2) neither an Event of Default nor any Default has occurred and is continuing or would occur upon issuance of such Obligations under this Master Indenture or any Related Supplement; and

(3) all requirements and conditions, if any, to the issuance of such Obligations set forth in the Related Supplement have been satisfied; and

(c) The Master Trustee receives an Opinion of Counsel to the effect that: (i) such Obligations and Related Supplement have been duly authorized, executed and delivered by the Obligated Group Representative on behalf of the Obligated Group and constitute valid and binding obligations of the Obligated Group, enforceable in accordance with their terms; and (ii) such Obligations are not subject to registration under federal or state securities laws and such Related Supplement is not subject to registration under the Trust Indenture Act of 1939, as amended (or that such registration, if required has occurred); and

(d) The Obligated Group Representative shall have delivered or caused to be delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may reasonably request; and

(e) With respect to any Obligation or Obligations (other than Existing Obligations), if such Obligation constitutes or secures Indebtedness, the requirements of Section 3.05 are satisfied, as evidenced by an Officer's Certificate delivered to the Master Trustee.

ARTICLE III

PAYMENTS; OBLIGATED GROUP COVENANTS

Section 3.01. Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly, all Required Payments at the place, on the dates and in the manner provided herein, or in any Related Supplement or Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Obligations hereunder. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of this Master Indenture, any Related Supplement and any Obligation.

The obligation of each Obligated Group Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(a) the granting of any extension, waiver or other concession given to any Obligated Group Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or

anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by this Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(b) the liability of any other Obligated Group Member under this Master Indenture ceasing for any cause whatsoever, including the release of any other Obligated Group Member pursuant to the provisions of this Master Indenture or any Related Supplement; or

(c) any Obligated Group Member's failing to become liable as, or losing eligibility to become, an Obligated Group Member with respect to an Obligation.

Subject to the provisions of Section 3.13 hereof permitting withdrawal from the Obligated Group, the obligation of each Obligated Group Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid or deemed paid in full in accordance with Article VII hereof. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Obligated Group Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Group Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Obligated Group Member's filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Obligated Group Member has become fixed.

Each Obligation shall be a primary obligation of the Obligated Group Members and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Obligated Group Member hereunder shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement of each Obligated Group Member hereunder and to enforce the making of Required Payments. Each Obligated Group Member hereby authorizes each of the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Obligated Group Members hereunder and to make any arrangement or compromise with any Obligated Group Member or Obligated Group Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with this Master Indenture and any Related Supplement. Each Obligated Group Member hereby waives in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Obligated Group Member, insofar as is necessary to give effect to any of the provisions of this Section.

Section 3.02. Maintenance of Properties; Payment of Indebtedness. Each Obligated Group Member hereby covenants to:

(a) maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Obligated Group Member shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof;

(b) maintain and operate its Property, Plant and Equipment in reasonably good working condition, and from time to time make or cause to be made all needful and proper replacements, repairs and improvements so that the operations of such Obligated Group Member will not be materially impaired;

(c) pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become Liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made in due time to prevent any delinquency thereon or any forfeiture or sale of any part of the Property, Plant and Equipment, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Obligated Group Member shall be required to pay any tax, assessment, rate or charge as long as it shall in good faith contest the validity thereof as set out in the definition of Permitted Liens;

(d) pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than obligations, Indebtedness, demands or claims (exclusive of the Obligations issued and Outstanding hereunder) the validity, amount or collectibility of which is being contested in good faith;

(e) at all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Property;

(f) use its best efforts to maintain (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) all permits, licenses and other governmental approvals necessary for the operation of its Property; and

(g) take no action or suffer any action to be taken by others which would result in the interest on any Related Bond issued as a tax exempt obligation becoming subject to federal income taxation.

Nothing in this Section 3.02 shall be construed to require an Obligated Group Member to maintain any permit, license or other governmental approval, or to continue to operate or maintain any Property, Plant or Equipment, if, in the reasonable good faith judgment of the Obligated Group Member, such permit, license, governmental approval or Property, Plant or Equipment is, or within the next succeeding twelve (12) calendar months is reasonably expected to become, inadequate, obsolete, unsuitable, undesirable or unnecessary for the business of the Obligated Group and

failure to maintain or operate such permit, license, governmental approval or Property, Plant or Equipment will not materially adversely impair the operation of the Obligated Group.

Section 3.03. Insurance Required.

(a) Each Obligated Group Member, respectively, covenants and agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles and alternative risk management programs and self-insurance, and against such risks as are customarily insured against by other health care institutions in connection with the ownership and operation of health facilities of similar character and size in the State of California.

(b) The Obligated Group Representative shall employ an Insurance Consultant at least once every two years to review the insurance requirements (including alternative risk management programs and self-insurance) of the Members. If the Insurance Consultant makes recommendations for a change in the insurance coverage required by subsection (a), the Obligated Group Members shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are not in the best interests of the Obligated Group Members or that such coverage is not obtainable at commercially reasonable rates. In lieu of maintaining insurance coverage which the Governing Body of the Obligated Group Representative deems necessary, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of the Obligated Group Representative determines to be reasonable and which shall not have a material adverse impact on reimbursement from third-party payers, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant.

(c) Notwithstanding anything in this Section to the contrary, the Obligated Group Members shall have the right, without giving rise to an Event of Default hereunder solely on such account, (1) to maintain insurance coverage below that required by subsection (a) of this Section, if the Obligated Group Representative furnishes to the Master Trustee a certificate of the Insurance Consultant that the insurance so provided accords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (2) to adopt alternative risk management and self-insurance programs described in (b) above.

Section 3.04. Against Encumbrances. Each Obligated Group Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property of the Obligated Group, except for Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an Obligated Group Member and is assumed by any Obligated Group

Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

Section 3.05. Reserved.

Section 3.06. Gross Receivables Pledge.

(a) To secure its obligations to make Required Payments hereunder and its other obligations, agreements and covenants to be performed and observed hereunder, each Obligated Group Member hereby grants to the Master Trustee security interests under the UCC in all of its Gross Receivables. In order to further secure the Obligations and Required Payments, each Obligated Group Member pledges of the benefit of Holders all monies and securities held from time to time by the Master Trustee under this Master Indenture, including without limitation, monies and securities held in any fund or account established under this Master Indenture, subject to any requirement that such monies or securities be applied only to specific purposes or assigned particular preference or priority.

(b) This Master Indenture shall be deemed a "security agreement" for purposes of the UCC.

(c) The Master Trustee's security interest in the Gross Receivables shall be perfected by the filing of financing statements that comply with the requirements of the UCC. Each Member (or the Obligated Group Representative on such Member's behalf) shall cause to be filed, in accordance with the requirements of the UCC, financing statements; and, from time to time thereafter, shall execute and deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee (which has no duty to make such request) in order to perfect or maintain perfected such security interests or give public notice thereof.

(d) Upon written request from the Obligated Group Representative, the Master Trustee shall take all procedural steps necessary as specified in writing by, and at the expense of, the Obligated Group Representative, to effect the subordination of its security interest in the Gross Receivables granted herein to security interests constituting Permitted Liens.

(e) Each Obligated Group Member shall notify the Master Trustee of any change of name, any change of its jurisdiction of organization, and any change of address of its chief executive office.

(f) Each Member of the Obligated Group represents and warrants that the Lien granted by this Section is and at all times will be a first Lien, subject only to (a) Permitted Liens and (b) non-consensual Liens arising by operation of law.

Section 3.07. Debt Coverage.

(a) Each Obligated Group Member, respectively, further covenants and agrees to manage its operations such that Income Available for Debt Service for the Obligated Group calculated at the end of each Fiscal Year will be not less than 1.10 times Annual Debt Service.

(b) Within five (5) months after the end of each Fiscal Year, the Obligated Group Representative shall compute the Debt Service Coverage Ratio for the Obligated Group for such Fiscal Year and furnish to the Master Trustee, an Officer's Certificate setting forth the results of such computation. The Obligated Group Representative covenants that if at the end of such Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.1:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Group or the methods of operation of the Obligated Group to increase the Debt Service Coverage Ratio to at least 1.1:1.0 for subsequent Fiscal Years (or, if in the opinion of the Independent Consultant, the attainment of such level is impracticable, to the highest practicable level). Copies of the recommendations of the Independent Consultant shall be filed with the Master Trustee within ninety (90) days of the retention of the Independent Consultant. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If either (i) the Obligated Group complies in all material respects with the reasonable recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection or (ii) the Obligated Group Representative determines that such recommendations are not in the best interests of the Obligated Group (and accordingly will not be followed) as evidenced by an Officer's Certificate filed with the Master Trustee, the Obligated Group will be deemed to have complied with the covenants set forth in this Section for such Fiscal Year, notwithstanding that the Debt Service Coverage Ratio shall be less than 1.1:1.0. Notwithstanding the foregoing, the Obligated Group Members shall not be excused from taking any action or performing any duty required under this Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this subsection (b).

Section 3.08. Reserved.

Section 3.09. Reserved.

Section 3.10. Merger, Consolidation, Sale or Conveyance. Each Obligated Group Member covenants that it will not merge or consolidate with any other Person that is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person that is not an Obligated Group Member (a "Merger Transaction") unless:

(a) After giving effect to the Merger Transaction,

(1) the successor or surviving entity (hereinafter, the "Surviving Entity") is an Obligated Group Member, or

(2) the Surviving Entity shall

(A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof, and

(B) become an Obligated Group Member pursuant to Section 3.12 and, pursuant to the Related Supplement required by Section 3.12(b), shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member hereunder; and

(b) The Master Trustee receives an Officer's Certificate to the effect that no Event of Default then exists in connection with or will arise as a result of the Merger Transaction; and

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation; and

(d) The Master Trustee receives an Opinion of Counsel to the effect that: (i) all conditions in this Section 3.10 relating to the Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions set forth in this Section 3.10 and is liable on all Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Obligations then Outstanding and such Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms; and (iv) the Merger Transaction will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Entity shall be treated as though it were an Obligated Group Member as of the date of the execution of this Master Indenture and shall thereafter have the right to participate in transactions hereunder relating to Obligations to the same extent as the other Obligated Group Members. All Obligations issued hereunder on behalf of a Surviving Entity shall have the same legal rank and benefit under this Master Indenture as Obligations issued on behalf of any other Obligated Group Member.

Section 3.11. Preparation and Filing of Financial Statements, Certificates and Other Information.

(a) Each Obligated Group Member covenants that it will keep adequate records and books of accounts in which complete and correct entries shall be made (said books shall be subject to the inspection by the Master Trustee (which inspection the Master Trustee is not required to make) during regular business hours after reasonable notice and under reasonable circumstances).

(b) The Obligated Group Representative covenants that it will furnish to the Master Trustee and any Related Bond Issuer that shall request the same in writing:

(1) As soon as practicable, but in no event more than five (5) months after the last day of each Fiscal Year, one or more financial statements which, in the aggregate, shall include the Obligated Group Members. Such financial statements:

(A) may consist of (i) consolidated or combined financial results including one or more Members of the Obligated Group and one or more other Persons required to be consolidated or combined with such Member(s) of the Obligated Group under GAAP or (ii) special purpose financial statements including only Members of the Obligated Group;

(B) shall be audited by an Accountant selected by the Obligated Group Representative and shall be prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations);

(C) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(D) if financial statements delivered to the Master Trustee pursuant to this subsection include financial information with respect to any Person who is not an Obligated Group Member or an Immaterial Affiliate as provided pursuant to clause (3) below or do not include financial information with respect to all Obligated Group Members, then the financial statements shall contain a consolidating or combining schedule from which financial information solely relating to the Obligated Group Members and Immaterial Affiliates may be derived.

(2) At the time of the delivery of financial statements complying with the provisions of Section 3.11(b)(1) (the "Financial Statements"), a certificate of the chief financial officer of the Obligated Group Representative, stating that the Obligated Group Representative has made a review of the activities of the Obligated Group Members during the preceding Fiscal Year for the purpose of determining whether or not the Obligated Group Members have complied with all of the terms, provisions and conditions of this Master Indenture and that each Obligated Group Member has kept, observed, performed and fulfilled each and every covenant, provision and condition of this Master Indenture on its part to be performed and none of such Obligated Group Members is in default in the performance or observance of any of the terms, covenants, provisions or conditions, or if any Obligated Group Member shall be in default, such certificate shall specify all such defaults and the nature thereof.

(3) Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates need not be excluded from Financial Statements delivered to the Master Trustee pursuant to this Section 3.11, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Obligated Group Members for all purposes of this Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates.

(c) The Master Trustee shall not be obligated to review, verify, or analyze any Financial Statements delivered to the Master Trustee hereunder, and shall only retain such Financial Statements as a repository for the Holders.

Section 3.12. Membership in Obligated Group. Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of this Master Indenture;

(b) a Related Supplement executed by the Obligated Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member

(1) agrees to become an Obligated Group Member, and

(2) agrees to be bound by the terms of this Master Indenture, the Related Supplements and the Obligations, and

(3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations, to execute and deliver Obligations and to make payments on all Obligations;

(c) an Opinion of Counsel to the effect that: (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of this Master Indenture; (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, no Event of Default will exist; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel to the effect that the addition of the proposed new Obligated Group Member will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation.

Section 3.13. Withdrawal from Obligated Group. Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the

provisions of this Master Indenture, provided that prior to such withdrawal the Master Trustee receives:

(a) the written consent of the Obligated Group Representative to the withdrawal of such Obligated Group Member;

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, no Event of Default will exist; and

(c) an Opinion of Counsel to the effect that: (i) the withdrawal of such Obligated Group Member would not adversely affect the validity of any Obligation then Outstanding; and (ii) the withdrawal of such Obligated Group Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Upon compliance with the conditions contained in this Section 3.13, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such Obligated Group Member's obligations hereunder, under all Related Supplements and under all Obligations.

Notwithstanding the foregoing, the Corporation may not withdraw from the Obligated Group unless prior to or concurrently with such withdrawal, the Corporation shall transfer all or substantially all of its assets to another Member of the Obligated Group.

ARTICLE IV

DEFAULTS

Section 4.01. Events of Default. Each of the following events shall be an Event of Default hereunder:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on, or any other Required Payment on, any Obligation.

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under this Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) and shall not have cured such failure within sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations; provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the failure.

(c) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(d) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(e) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default hereunder which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

Section 4.02. Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default hereunder, the Master Trustee may, and, upon (i) the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default under Section 4.01(a) hereof has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or herein to the contrary notwithstanding; provided, however, that if the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations. Notwithstanding the foregoing, no Obligation shall be accelerated if the Event of Default is the result of the nonpayment of a Subordinate Financial Product Extraordinary Payment issued on or after the date of effectiveness of this Master Indenture set forth in Section 8.10.

(b) At any time after the Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(1) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than payments then due only because of such declaration);

(2) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due;

(3) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group hereunder; and

(4) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Section 4.03. Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Obligated Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders hereunder by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(1) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(2) Civil action upon all or any part of the Obligations;

(3) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(4) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Obligations; and

(5) Enforcement of any other right or remedy of the Holders conferred by law or hereby.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request.

Section 4.04. Application of Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of this Article (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of this Article):

First: To the payment of all installments of interest then due on the Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of interest, Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and Parity Financial Product Extraordinary Payments due on such date, without any discrimination or preference;

Second: To the payment of all installments of principal then due on the Obligations (whether at maturity or by call for redemption) and other unpaid Required Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments of principal due on the same date, then to the payment thereof ratably, according to the amounts of principal due on such date, without any discrimination or preference;

Third: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of this Article):

First: To the payment of the principal and interest and other Required Payments (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments, but excluding Subordinate Financial Product Extraordinary Payments) then due and unpaid on the Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment or payment over any other installment or payment or of any Obligation over any other Obligation, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Subordinate Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all Subordinate Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Subordinate Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue, provided such moneys are applied by the Master Trustee to the payment of such principal. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this Section and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or such Person as a court of competent jurisdiction may direct.

Section 4.05. Remedies Not Exclusive. No remedy granted by the terms of this Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity.

Section 4.06. Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in

its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Subject to the provisions of Section 4.04 hereof, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations.

Section 4.07. Master Trustee to Represent Holders. The Master Trustee is hereby irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the rights and remedies available to the Holders under the provisions of this Master Indenture, the Obligations, any Related Supplement and applicable provisions of law, in each case subject to the provisions of Section 4.08. The Holders, by taking and holding the Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

Section 4.08. Holders' Control of Proceedings. If an Event of Default has occurred and is continuing, notwithstanding anything herein to the contrary, the Holders of at least a majority in aggregate principal amount of Outstanding Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms hereof. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions hereof or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in such direction. Nothing in this Section shall impair the right of the Master Trustee to take any other action authorized by this Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Section 4.09. Termination of Proceedings. In case any proceeding instituted by the Master Trustee with respect to any Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or the Holders, then the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights hereunder. All rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Section 4.10. Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by this Article to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Obligations, the Master Trustee shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02 hereof, the failure to pay the principal of, premium, if any, or interest

on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Section 4.11. Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Obligations to be due and payable, (b) after declaring the Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such appointment shall confer. Each Obligated Group Member consents, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.12. Remedies Subject to Provisions of Law. All rights, remedies and powers provided by this Article may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law. All the provisions of this Article are intended to be subject to all applicable mandatory provisions of law that may be continuing and to be limited to the extent necessary so that they will not render any provision hereof invalid or unenforceable under the provisions of any applicable law.

Section 4.13. Notice of Default. Within ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term "Event of Default" for the purposes of this Section being limited to the events specified in subsections (a)-(f) of Section 4.01, not including any periods of grace provided for in subsections (b), (c) and (d), and regardless of the giving of written notice specified in subsection (b) of Section 4.01). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (d) and (e) of Section 4.01, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

Section 4.14. Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies. Upon securing the consent of the Holders of 100% in aggregate principal amount of the Outstanding Obligations, references to twenty-five percent (25%) in aggregate principal amount of Outstanding

Obligations set forth in Section 4.01(b), Section 4.02(a) and 4.03(a) shall be revised to read as follows:

> "a majority in aggregate principal amount of Outstanding Obligations"

ARTICLE V

THE MASTER TRUSTEE

Section 5.01. Certain Duties and Responsibilities; Liability of Master Trustee.

(a) Except during the continuance of an Event of Default:

(1) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture, and no implied covenant or obligation shall be read into this Master Indenture against the Master Trustee; and

(2) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon Certificates or opinions furnished to the Master Trustee and conforming to the requirements of this Master Indenture; but in the case of any Certificate or opinion specifically required by the provisions hereof to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine such Certificate or opinion to determine whether or not it conforms to the requirements of this Master Indenture.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of its own affairs.

(c) The Master Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct. No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(2) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(3) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of Obligations Outstanding relating to the timing, method and place of conducting any proceeding for any remedy available to the Master Trustee, or

exercising any trust or power conferred upon the Master Trustee under this Master Indenture;

(4) no provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; and

(5) the Master Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to any Event of Default or any event which would, with the giving of notice or the passing of time or both, constitute an Event of Default, unless a Responsible Officer in the Corporate Trust Office of the Master Trustee shall have actual knowledge of such Event of Default or shall have been notified in writing of such event by any Obligated Group Member or by the Holder of an Obligation.

The Master Trustee will keep on file at its office a list of the names and addresses of the last known Holders of all Obligations. At reasonable times and under reasonable regulations established by the Master Trustee, said list may be inspected and copied by the Obligated Group Members, any Holder or the authorized representative thereof, provided that the ownership of such Holder and the authority of any such designated representative shall be evidenced to the satisfaction of the Master Trustee.

(d) Every provision of this Master Indenture relating to the conduct of, affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section.

Section 5.02. Certain Rights of Master Trustee. Subject to Section 5.01:

(a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any document, including, without limitation, any opinion, request, written consent or certificate, believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request or direction of the Obligated Group Representative mentioned herein shall be sufficiently evidenced by an Officer's Certificate. Any action of the Governing Body of any Obligated Group Member shall be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Obligated Group Member to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, allowing or omitting any action hereunder, the Master Trustee may (in the absence of bad faith on its part and unless other evidence is specifically prescribed by this Master Indenture) request and conclusively rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel of its selection, and any opinion of such counsel shall be full and complete authorization and protection with respect to any action taken, allowed or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction; provided, however, that no security or indemnity shall be required for the giving of notice of default pursuant to Section 4.13.

(f) The Master Trustee shall not be bound to make any investigation into the facts stated in any document delivered to it hereunder, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts as it may see fit. If the Master Trustee determines to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Obligated Group Member (excluding specifically donor records, patient records and personnel records), personally or by agent or attorney, during regular business hours and after reasonable notice.

(g) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or through agents or attorneys. The Master Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care.

(h) The Master Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Master Indenture.

(i) The Master Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Master Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Master Trustee at the Corporate Trust Office of the Master Trustee, and such notice references this Master Indenture.

(j) The Master Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control and without its fault or negligence, including, but not limited to, acts of God, acts of the public enemy or terrorists, earthquakes, fires, floods, war, civil or military disturbances, sabotage, epidemics, quarantine restrictions, riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service, accidents, labor disputes, acts of civil or military authority or governmental actions affecting the performance of its duties under this Master Indenture, it being understood that the Master Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(k) The Master Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of any Related Bonds.

Section 5.03. Right to Deal in Obligations and Related Bonds. The Master Trustee may buy, sell or hold and deal in any Obligations and Related Bonds with the same effect as if it were not the Master Trustee. The Master Trustee may commence or join in any action which a Holder or holder of a Related Bond is entitled to take with the same effect as if the Master Trustee were not the Master Trustee.

Section 5.04. Removal and Resignation of the Master Trustee.

(a) The Master Trustee may be removed at any time by an instrument or instruments in writing signed by (1) the Holders of not less than a majority of the principal amount of Outstanding Obligations or (2) (unless an Event of Default has occurred and is then continuing) the Obligated Group Representative.

(b) The Master Trustee may at any time resign by giving written notice of such resignation to the Obligated Group Representative.

(c) No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created hereby. Written notice of removal of the predecessor Master Trustee and/or appointment of the successor Master Trustee shall be given by the successor Master Trustee within ten (10) days of the successor's acceptance of appointment to the Obligated Group Members and to each Holder at the addresses shown on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than a majority in aggregate principal amount of Outstanding Obligations, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, any Obligated Group Member or any Holder may apply at the expense of the Obligated Group Members to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

(d) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a national banking association in good standing under the laws of the United States of America or a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America, and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(e) Every successor Master Trustee shall execute and deliver to its predecessor and to each Obligated Group Member a written instrument accepting such appointment. Upon the delivery of such acceptance, the successor Master Trustee shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor shall execute and deliver to the successor Master Trustee a written instrument transferring to the

successor Master Trustee all the rights, powers and trusts of the predecessor. The predecessor Master Trustee (upon payment of all amounts owed to it) shall execute any documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Section 5.05. Compensation and Reimbursement. Subject to the provisions of any specific agreement between the Obligated Group Representative and the Master Trustee relating to the compensation of the Master Trustee, each Obligated Group Member agrees:

(a) To pay the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust).

(b) Except as otherwise expressly provided herein, to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and its agents), except any such expense, disbursement or advance as may be attributable to its negligence or willful misconduct.

(c) To indemnify each of the Master Trustee and any predecessor Master Trustee for, and to hold it harmless against, any and all loss, liability, damages, claim or expense, including legal fees and expenses and taxes (other than taxes based on the income of the Master Trustee), incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of this trust or its duties hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Master Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 4.01(c) or Section 4.01(d), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Master Indenture and the resignation or removal of the Master Trustee.

Section 5.06. Recitals and Representations. The recitals, statements and representations contained herein or in any Obligation (excluding the Master Trustee's authentication on the Obligations) shall be taken and construed as made by and on the part of the Obligated Group Members, and not by the Master Trustee. The Master Trustee assumes no responsibility for the correctness of such statements.

The Master Trustee makes no representation as to, and is not responsible for, the validity or sufficiency of this Master Indenture or of the Obligations. The Master Trustee shall not be concerned with or accountable to anyone for the use or application of any moneys which shall be

released or withdrawn in accordance with the provisions hereof. The Master Trustee shall have no duty of inquiry with respect to any Event of Default without actual knowledge of or receipt by the Master Trustee of written notice of an Event of Default from an Obligated Group Member or any Holder.

Section 5.07. Separate or Co-Master Trustee. At any time, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee may appoint one or more Persons either to act as co-master trustee with the Master Trustee, or to act as separate master trustee, and to vest in such Persons or Persons, such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section.

Every co-master trustee or separate master trustee shall, to the extent permitted by law, be appointed subject to the following terms:

(a) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed as shall be provided in the instrument appointing such co-master trustee or separate master trustee, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee is incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co master trustee or separate master trustee.

(c) Any request in writing by the Master Trustee to any co-master trustee or separate master trustee to take or to refrain from taking any action hereunder shall be sufficient for the taking, or the refraining from taking, of such action by such Person.

(d) Any co-master trustee or separate master trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Master Trustee may at any time, by an instrument in writing, accept the resignation of or remove any co master trustee or separate master trustee appointed under this Section. Upon the request of the Master Trustee, the Obligated Group Members shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder, nor will the act or omission of any trustee hereunder be imputed to any other trustee.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-master trustee or separate master trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-master trustee or separate master trustee hereunder shall be turned over to the Master Trustee immediately.

Upon the acceptance in writing of such appointment by any co master trustee or separate master trustee, such Person shall be vested with such rights, powers, duties or obligations as are specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-master trustee or separate master trustee to act alone) subject to all the terms hereof. Every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-master trustee or separate master trustee may, at any time by an instrument in writing, constitute the Master Trustee its attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its behalf and in its name.

In case any co-master trustee or separate master trustee shall become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of such Person shall, so far as permitted by law, vest in and be exercised by the Master Trustee unless and until a successor co-master trustee or separate master trustee shall be appointed in the manner herein provided.

Section 5.08. Merger or Consolidation. Any company into which the Master Trustee may be merged or converted, or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it is a party, or any company to which the Master Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 5.04) shall be the successor to the Master Trustee without the execution or filing of any paper or any further act.

ARTICLE VI

SUPPLEMENTS AND AMENDMENTS

Section 6.01. Supplements Not Requiring Consent of Holders. The Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

(a) To correct any ambiguity or formal defect or omission in this Master Indenture;

(b) To correct or supplement any provision which may be inconsistent with any other provision or to make any other provision with respect to matters or questions arising hereunder, which, in either case, does not materially and adversely affect the interests of the Holders;

(c) To grant or confer ratably upon all of the Holders any additional benefits, rights, remedies, powers or authority, including, without limitation, the addition of provisions providing for the creation of a credit group which credit group shall consist of all Obligated Group Members and Persons designated as affiliates of Obligated Group Members, or to add to the covenants of and restrictions on the Obligated Group Members;

(d) To qualify this Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;

(e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted hereunder;

(f) To obligate a successor to any Obligated Group Member as provided in Section 3.10;

(g) To add a new Obligated Group Member as provided in Section 3.12; or

(h) To make any other change which does not materially and adversely affect the interests of the Holders.

Section 6.02. Supplements Requiring Consent of Holders.

(a) Other than Related Supplements referred to in Section 6.01 hereof and subject to the terms contained in this Article, the Holders of not less than a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained herein; provided, however, with respect to any Obligation issued on or after the date of effectiveness of this Master Indenture set forth in Section 8.10, registered in the name of a Related Bond Trustee and securing a Related Series of Bonds, payment of the principal of and interest on which is insured or otherwise guaranteed by a municipal bond insurance policy or is secured by a letter of credit, the provider of such municipal bond insurance or letter of credit shall be deemed to be the Holder of such Obligation for purposes of consenting to and approving the execution of Related Supplements for purposes of this Section 6.02, subject to the provisions set forth in Section 8.04 and as except as otherwise provided in the applicable Related Supplement or Obligation; and provided, further, however, that nothing in this Section shall permit or be construed as permitting a Related Supplement which would:

(i) extend the stated maturity of, or time for paying interest on, any Obligation or reduce the principal amount of or the redemption premium or rate of interest or change the method of calculating interest payable on, or reduce any other Required Payment on any Obligation without the consent of the Holder of such Obligation;

(ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in Article IV hereof so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding; or

(iii) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives: (i) a Request of the Obligated Group Representative to enter into such Related Supplement; (ii) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement; (iii) the proposed Related Supplement; and (iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Obligated Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Section 6.03. Execution and Effect of Supplements.

(a) In executing any Related Supplement permitted by this Article, the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Related Supplement is authorized or permitted hereby. The Master Trustee may (but shall not be obligated to) enter into any Related Supplement that materially and adversely affects the Master Trustee's own rights, duties or immunities.

(b) Upon the execution and delivery of any Related Supplement in accordance with this Article, the provisions of this Master Indenture shall be deemed modified in accordance therewith. Such Related Supplement shall form a part hereof for all purposes and every Holder shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Related Supplement in accordance with this Article may, and, if required by the Obligated Group

Representative or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Related Supplement. If the Obligated Group Representative or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of the Obligated Group Representative to any such Related Supplement may be prepared and executed by the Obligated Group Representative and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

Section 6.04. Amendment of Related Supplements. Any Related Supplement may provide that the provisions thereof may be amended without the consent of or notice to any of the Holders, or pursuant to such terms and conditions as may be specified in such Related Supplement. If a Related Supplement does not contain provisions relating to the amendment thereof, the amendment of such Related Supplement shall by governed by the provisions of Section 6.01 and Section 6.02 hereof.

ARTICLE VII

SATISFACTION AND DISCHARGE

Section 7.01. Satisfaction and Discharge of Master Indenture. This Master Indenture shall cease to be of further effect if:

(a) all Obligations previously authenticated (other than any Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or

(b) all Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or

(c) a deposit is made in trust with the Master Trustee (or with one or more national banking associations or trust companies acceptable to the Master Trustee pursuant to an agreement between an Obligated Group Member and such national banking associations or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and all other sums payable hereunder by the Obligated Group Members are also paid. The Master Trustee, on demand of the Obligated Group Representative and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture and authorizing the Obligated Group Representative to file such terminations and releases as may be necessary to evidence the termination of the Master Trustee's security interest in the Gross Receivables. Unless the deposit pursuant to clause (c) above is made solely with cash, the Master Trustee may request that the Obligated Group Representative provide a report prepared by an accountant or other financial services firm regarding the sufficiency of the funds for such discharge and satisfaction provided pursuant to clause (c) above (such report being

hereinafter referred to as a "Verification Report"). If the Master Trustee shall have been provided with a Verification Report, the Master Trustee shall be entitled to rely upon such Verification Report.

The Obligated Group Members shall pay and indemnify the Master Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to this Section 7.01 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Obligations.

Notwithstanding the satisfaction and discharge of this Master Indenture, the obligations of the Obligated Group Members to the Master Trustee under Section 5.05 hereof shall survive.

Section 7.02. Payment of Obligations After Discharge of Lien. Notwithstanding the discharge of the lien of this Master Indenture as provided in this Article, the Master Trustee shall retain such rights, powers and duties as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and for the registration, transfer, exchange and replacement of Obligations. Any moneys held by the Master Trustee for the payment of the principal of, premium, if any, or interest or other Required Payment on any Obligation remaining unclaimed for one year after the principal of all Obligations has become due and payable, whether at maturity, upon proceedings for redemption or by declaration as provided herein, shall then be paid to the Obligated Group Members. The Holders of any Obligations not previously presented for payment shall thereafter be entitled to look only to the Obligated Group Members for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.01. Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Master Indenture or the Obligations is intended or shall be construed to give to any Person other than each Obligated Group Member, the Master Trustee, the Related Bonds Issuers and the Holders any legal or equitable right, remedy or claim under or with respect to this Master Indenture. This Master Indenture and all of the covenants, conditions and provisions hereof are intended to be and are for the sole and exclusive benefit of the parties mentioned in this Section.

Section 8.02. Severability. If any part of this Master Indenture is for any reason held invalid or unenforceable, no other part shall be invalidated or deemed unenforceable.

Section 8.03. Holidays. Except to the extent a Related Supplement or an Obligation provides otherwise:

(a) Subject to subsection (b), when any action is provided herein to be done on a day or within a time period named, and the day or the last day of the period falls on a day on which banking institutions in the jurisdiction where the Corporate Trust Office is located are authorized

by law to remain closed, the action may be done on the next ensuing day that is not a day on which banking institutions in such jurisdiction are authorized by law to remain closed, with the same effect as if done on the day or within the time period named.

(b) When the date on which principal of or interest or premium on any Obligation is due and payable is a day on which banking institutions at the place of payment are authorized by law to remain closed, payment may be made on the next ensuing day on which banking institutions at such place are not authorized by law to remain closed with the same effect as if payment were made on the due date, and, if such payment is made, no interest shall accrue from and after such due date.

Section 8.04. Credit Enhancer Deemed Holder of Obligation. Except to the extent a Related Supplement or an Obligation provides otherwise, any credit enhancer of Related Bonds shall be deemed the Holder of the related Obligation for purposes of this Master Indenture for so long as the credit enhancement is in effect and the credit enhancer is not in default thereunder. If the credit enhancement is applicable to a portion of Related Bonds, such Related Obligation shall be treated as if such Related Obligation were two Obligations, one in the principal amount of the Related Bonds for which the credit enhancement is applicable and another in the principal amount of the remainder of the Related Bonds.

Section 8.05. Governing Law. This Master Indenture and the Obligations are contracts made under the laws of the State of California, and shall be governed by and construed in accordance with such laws applicable to contracts made and performed in said State.

Section 8.06. Counterparts. This Master Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 8.07. Immunity of Individuals. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Obligations issued hereunder or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of any Obligated Group Member which is a corporation, whether directly or indirectly. All liability of any such individual is hereby expressly waived and released as a condition of and in consideration for the execution hereof and the issuance of the Obligations.

Section 8.08. Binding Effect. This instrument shall inure to the benefit of and shall be binding upon each Obligated Group Member, the Master Trustee and their respective successors and assigns, subject to the limitations contained herein.

Section 8.09. Notices.

(a) Unless otherwise expressly specified or permitted by the terms hereof, all notices, consents or other communications required or permitted hereunder shall be in writing and shall be deemed sufficiently given or served if given: (i) by facsimile or electronic mail with prompt telephonic confirmation of receipt; (ii) personally by hand; (iii) by overnight delivery service; or (iv) by first class mail, postage prepaid and addressed as follows:

(1) If to the Obligated Group Representative, addressed to it at 300 Pasteur Drive, M/C 5554, Stanford, California 94305, Attention: Chief Financial Officer;

(2) If to the Master Trustee, addressed to it at the Corporate Trust Office; or

(3) If to the registered Holder of an Obligation, addressed to such Holder at the address shown on the books of the Master Trustee.

(b) The Obligated Group Representative or the Master Trustee may from time to time designate a different address or addresses for notice by notice in writing to the others and to the Holders.

Section 8.10. Effectiveness. Amendment and Restatement of the Existing Master Indenture as set forth in this Master Indenture shall take effect on ____ __, ____.

IN WITNESS WHEREOF, **Stanford Hospital and Clinics** has caused this Second Amended and Restated Master Indenture of Trust to be signed in its name by its duly authorized officer, and to evidence its acceptance of the trusts and agreements hereby created **The Bank of New York Mellon Trust Company, N.A.** has caused this Second Amended and Restated Master Indenture of Trust to be signed in its name by one of its duly authorized officers, all as of the day and year first above written.

Stanford Hospital and Clinics

By:_____
Chief Financial Officer

The Bank of New York Mellon Trust Company, N.A., as Master Trustee

By:_____
Authorized Representative

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Exhibit A

Existing Financial Products Agreements*

1. ISDA Master Agreement, dated as of September 1, 2007, between Bear Stearns Financial Products Inc. and Stanford Hospital and Clinics (the "Corporation"), the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement dated as of September 1, 2007, together with Confirmations FXNEC5267/REF 05000850178215, FXNEC5272/REF 050000701 0816, FXNEC5273/REF 050008501 7862, FXNEC5274/REF 050008501 7795 and FXNEC5275/REF 050008501 7775, each dated September 1, 2007.

2. ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmations MSCS Ref. No. AUBRJ, dated June 17, 2003, MSCS Ref. No. AUKNU, dated May 28, 2008, and MSCS Ref. No. AUN19 dated November 17, 2008 and amended and restated as of November 30, 2010.

3. ISDA Master Agreement, dated as of August 22, 2008, between JPMorgan Chase Bank, N.A. and the Corporation, the Schedule to the ISDA Master Agreement, dated as of August 22, 2008, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of August 22, 2008, as amended by the 1st Amendment Agreement, dated as of November 1, 2008, and Novation Confirmations dated August 29, 2008 numbered, FXNEC9725/REF 0500007010838 and FXNEC9726/REF 0500007010839.

4. ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of November 9, 2010, between Wells Fargo Bank, National Association and the Corporation, and Confirmations dated December 1, 2010 reference numbers REF 0500000701923/7680693 and REF 0500007010878/7680694.

5. ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of November 10, 2010, between Barclays Bank PLC and the Corporation.

6. ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of January 24, 2011, between Deutsche Bank AG, New York Branch and the Corporation, and Confirmations dated January 26, 2011, reference numbers

* Note: Listing reflects Financial Products Agreements in effect as of the effective date of the Amended and Restated Master Indenture of Trust.

FXNEC9724/REF 0500007010837/N1253185N; and

FXNEC9723/REF 0500007010836/N1253181N.

Exhibit B

Existing Obligations[*1]

	Obligation	Obligation Holder
1.	Obligation No. 13, consisting of the ISDA Master Agreement dated as of September 1, 2007 between Bear Stearns Financial Products Inc. and the Stanford Hospital and Clinics (the "Corporation"), the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, together with Confirmations FXNEC5267/REF 05000850178215, FXNEC5272/REF 050000701 0816, FXNEC5273/REF 050008501 7862, FXNEC5274/REF 050008501 7795 and FXNEC5275/REF 050008501 7775, each dated September 1, 2007	Bear Stearns Financial Products Inc.
2.	Obligation No. 14, consisting of ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmation MSCS Ref. No. AUBRJ dated June 17, 2003	Morgan Stanley Capital Services Inc.
3.	Obligation No. 19, issued in the original principal amount of $428,500,000	Wells Fargo National Bank, National Association ("Wells Fargo"), as trustee, under the Indenture, dated as of June 1, 2008, between CHFFA and Wells Fargo

[*] Note: Listing reflects Obligations Outstanding as of the effective date of the Amended and Restated Master Indenture of Trust.

[1] To be updated as of the effective date set forth in Section 8.10.

	Obligation	Obligation Holder
4.	Obligation No. 21, consisting of the ISDA Master Agreement, dated as of June 17, 2003, between Morgan Stanley Capital Services Inc. and the Corporation, the Amended and Restated Schedule to the ISDA Master Agreement, dated as of June 17, 2003, amended and restated as of September 1, 2007, the related ISDA Credit Support Annex to the ISDA Master Agreement, dated as of September 1, 2007, and Confirmations MSCS Ref. No. AUKNU dated May 28, 2008 and AUN19 dated November 17, 2008 and amended and restated as of November 30, 2010	Morgan Stanley Capital Services Inc.
5.	Obligation No. 25, consisting of ISDA Master Agreement dated as of August 22, 2008, between JPMorgan Chase Bank, N.A. and the Corporation, the Schedule to the ISDA Master Agreement, dated as of August 22, 2008, the related ISDA Credit Support Annex to the ISDA Master Agreement dated as of August 22, 2008, as amended by the 1st Amendment Agreement, dated as of February 5, 2009, and Novation Confirmations dated August 29, 2008 numbered FXNEC9725/REF 0500007010838 and FXNEC9726/REF 0500007010839	JPMorgan Chase Bank. N.A.
6.	Obligation No. 28, issued in the original principal amount of $296,000,000	The Bank of New York Mellon Trust Company, N.A. ("BNY"), as trustee under the Indenture, dated as of June 1, 2010, between CHFFA and BNY
7.	Obligation No. 29, consisting of ISDA Master Agreement, the related Schedule to the ISDA Master Agreement and ISDA Credit Support Annex to the ISDA Master Agreement, each dated as of November 9, 2010, between Wells Fargo Bank, National Association and the Corporation, and Confirmation	Wells Fargo National Bank, National Association

	Obligation	Obligation Holder
8.	Obligation No. 31, issued in the original principal amount of $408,320,000	U.S. Bank National Association ("U.S. Bank"), as trustee under the Indenture, dated as of May 1, 2012, between CHFFA and U.S. Bank
9.	Obligation No. 35, issued in the original principal amount of $100,000,000	U.S. Bank, as trustee under the Indenture, dated as of June 1, 2015, between CHFFA and U.S. Bank
10.	Obligation No. 39, issued in the original principal amount of $454,200,000	BNY, as trustee under the Indenture, dated as of December 1, 2017, between CHFFA and BNY
11.	Obligation No. 40, issued in the original principal amount of $500,000,000	BNY as trustee under the Indenture, dated as of January 1, 2018, between Stanford Health Care and BNY
12.	Obligation No. 41, issued in the original principal amount of $300,000,000	BNY, as trustee under the Indenture, dated as of April 1, 2020, between Stanford Health Care and BNY
13.	Obligation No. 42, issued in the original principal amount of $170,120,000	BNY, as trustee under the Indenture, dated as of April 1, 2020, between CHFFA and BNY
14.	Obligation No. 43, issued in the original principal amount of $157,715,000	U.S. Bank, as trustee under the Indenture dated as of April 1, 2021 between CHFFA and BNY
15.	Obligation No. 44, issued in the original principal amount of $365,100,000	U.S. Bank, as trustee under the Indenture, dated as of April 1, 2021, between Stanford Health Care and BNY
16.	Obligation No. 45, issued in the original principal amount of up to $150,000,000	BNY, as Issuing and Paying Agent under the Issuing and Paying Agent Agreement dated as of April 1, 2021, between Stanford Health Care and BNY

Exhibit C

Existing Parity Financial Product Extraordinary Payments*

Settlement Amounts payable by Stanford Hospital and Clinics under the terms of Obligation No. 13 or Obligation No. 14 (each identified on Exhibit B to this Second Amended and Restated Master Indenture of Trust), respectively, if (and only if) Financial Security Assurance Inc., under the terms of the Financial Guaranty Insurance Policy Nos. 201227-SWPA and 201227-SWPB, each issued July 1, 2003, shall direct or consent to early termination of Obligation No. 13 or Obligation No. 14, respectively, in which event such Settlement Amounts are entitled by the terms of Supplemental Master Indenture No. 13 and No. 14, respectively, to be equally and ratably secured by any lien created under the Master Indenture and all other Obligations except as otherwise provided in the Master Indenture.

* Note: Listing reflects Parity Financial Product Extraordinary Payments as of the effective date of the Amended and Restated Master Indenture of Trust.

Exhibit D

Description of Excluded Property

1. Hoover Pavilion, meaning the property described in Exhibit A-2 and Exhibit B-2 of the Lease, and all buildings and improvements located thereon, together with all furnishings and equipment located thereon.

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APPENDIX F

DTC BOOK-ENTRY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of The Depository Trust Company ("**DTC**") New York, New York, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") or Clearstream Banking, S.A. ("**Clearstream**") (DTC, Euroclear and Clearstream together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that SHC believes to be reliable, but none of SHC, the Trustee or the Underwriters take any responsibility for the accuracy, completeness or adequacy of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. SHC will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Taxable Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Clearing Systems

DTC Book-Entry Only System. DTC, New York, New York, will act as securities depository for the Taxable Bonds. The Taxable Bonds will be issued as fully registered securities registered in the name of Cede & Co., DTC's partnership nominee. One fully registered Taxable Bond certificate will be issued for the Taxable Bonds of each stated maturity, in the aggregate principal amount of the Taxable Bonds of such stated maturity and bearing interest at the same rate 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 3.6 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 Taxable Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Taxable Bonds on DTC's records. The ownership interest of each actual owner of a Taxable Bond (a "***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 beneficial ownership interests in the Taxable 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 Taxable Bonds, except in the event that use of the book entry only system for the Taxable Bonds is discontinued.

To facilitate subsequent transfers, all Taxable Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as requested by an authorized

representative of DTC. The deposit of Taxable Bonds with DTC and their registration in the name of Cede & Co. or such other nominee as requested by an authorized representative of DTC effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Taxable Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Taxable 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 Taxable Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Taxable Bonds, such as redemptions, defaults and proposed amendments to the bond documents.

Redemption notices will be sent to DTC. If less than all of the Taxable Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Taxable Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Trustee as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Taxable Bonds are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Payments of principal of, interest on and redemption price, including Make-Whole Redemption Price, of the Taxable Bonds will be made to Cede & Co. or such other nominee as 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 Trustee or SHC on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct and Indirect Participant and not of DTC, SHC or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption price, including Make-Whole Redemption Price, to Cede & Co. (or such other nominee as requested by an authorized representative of DTC) is the responsibility of 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 the Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Taxable Bonds at any time by giving reasonable notice to the Trustee and SHC. Under such circumstances, in the event that a successor depository is not obtained, Taxable Bond certificates are required to be printed and delivered. SHC may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Taxable Bond certificates will be printed and delivered to DTC.

Euroclear and Clearstream. Euroclear and Clearstream have advised SHC as follows:

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system, either directly or indirectly.

Clearing and Settlement Procedures

General. The Taxable Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Taxable Bonds, the record holder will be DTC's nominee. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories.

The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC. Because of time zone differences, the securities account of a Clearstream or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream participant on that business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream or Euroclear, will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream participants or Euroclear participants will occur in accordance with their respective rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants or Euroclear participants may not deliver instructions directly to the depositories.

SHC will not impose any fees in respect of holding the Taxable Bonds; however, holders of book-entry interests in the Taxable Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the Clearing Systems.

Initial Settlement. Interests in the Taxable Bonds will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Taxable Bonds through Euroclear and Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Taxable Bonds will be credited to Euroclear and Clearstream participants' securities clearance accounts on the business day following the date of delivery of the Taxable Bonds against payment (value as on the date of delivery of the Taxable Bonds). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Taxable Bonds through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Taxable Bonds following confirmation of receipt of payment to SHC on the date of delivery of the Taxable Bonds.

Secondary Market Trading. Secondary market trades in the Taxable Bonds will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Taxable Bonds may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Taxable Bonds may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Taxable Bonds between Euroclear or Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream and DTC.

Special Timing Considerations. Investors should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Taxable Bonds through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Taxable Bonds, or to receive or make a payment or delivery of Taxable Bonds, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

Clearing Information. SHC expects that the Taxable Bonds will be accepted for clearance through the facilities of Euroclear and Clearstream. The international securities identification number, common code and CUSIP number for the Taxable Bonds are set out on the cover page of this Offering Memorandum.

None of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Neither SHC nor any of its agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

The information in this APPENDIX F concerning the Clearing Systems has been obtained from sources that the Underwriters and SHC believe to be reliable, but the Underwriters and SHC take no responsibility for the accuracy thereof.

Limitations

For so long as the Taxable Bonds are registered in the name of DTC or its nominee, Cede & Co., SHC and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Taxable Bonds for all purposes, including payments, notices and voting. So long as Cede & Co. is the registered owner of the Taxable Bonds, references in this Offering Memorandum to registered owners of the Taxable Bonds shall mean Cede & Co. and shall not mean the beneficial owners of the Taxable Bonds.

Because DTC is treated as the owner of the Taxable Bonds for substantially all purposes under the Indenture, beneficial owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of beneficial owners is unknown to SHC, the Trustee or DTC, it may be difficult to transmit information of potential interest to beneficial owners in an effective and timely manner. Beneficial owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the Taxable Bonds that may be transmitted by or through DTC.

Under the Indenture, payments made by the related Trustee to DTC or its nominee shall satisfy SHC's obligations under the related Indenture and the Obligated Group Members' obligations under Obligation No. 44, to the extent of the payments so made.

Neither SHC nor the Trustee have any responsibility or obligation with respect to:

- the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Taxable Bonds;

- the delivery to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by a Trustee, of any notice with respect to any Taxable Bond including, without limitation, any notice of redemption with respect to any Taxable Bond;

- the payment to any Direct Participant or Indirect Participant or any other person, other than a registered owner as shown in the bond register kept by a Trustee, of any amount with respect to the principal of, premium, if any, or interest on, any Taxable Bond; or

- any consent given by DTC or its nominee as registered owner.

Prior to any discontinuation of the book entry only system hereinabove described, SHC and the Trustee may treat Cede & Co. (or such other nominee of DTC) as, and deem Cede & Co. (or such other nominee) to be, the absolute registered owner of the Taxable Bonds for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the Taxable Bonds;
- giving notices of redemption and other matters with respect to the Taxable Bonds;
- registering transfers with respect to the Taxable Bonds; and
- the selection of Taxable Bonds for redemption.

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