NEW ISSUE – BOOK-ENTRY ONLY

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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$260,545,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Revenue Bonds
(STANFORD HEALTH CARE)
2023 Series A

Stanford MEDICINE | Health Care

Dated: *Date of Delivery* ***Due:*** *As shown on inside cover page*

The California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care) 2023 Series A (the "Bonds") are being issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form (without physical certificates). For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, (i) payments of the principal or Redemption Price of and interest on the Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the Beneficial Owners, and (ii) all notices, including any notice of redemption, shall be mailed only to Cede & Co. See APPENDIX F – "Book-Entry System" herein.

The Bonds will be issued bearing interest at a Fixed Rate in a Fixed Period that extends to the maturity date, as shown on the inside cover page hereof. The Bonds will be issued in denominations of $5,000 and any integral multiple thereof. Interest on the Bonds is payable on each February 15 and August 15, commencing February 15, 2024.

The Bonds are subject to special redemption prior to maturity, as described herein.

The Bonds are limited obligations of the Authority, secured under the provisions of the Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by the Corporation under the Loan Agreement and from certain funds held under the Indenture. The obligation of the Corporation to make such payments is evidenced and secured by Obligation No. 46 issued under the Master Indenture, described herein, whereunder the Corporation and any future members of the Obligated Group (collectively, the "Obligated Group") jointly and severally are obligated to make payments on Obligation No. 46 in an amount sufficient to pay the principal or Redemption Price of and interest on the Bonds when due. Currently, the Corporation is the sole member of the Obligated Group.

By purchasing the Bonds offered hereunder, the Holders, Beneficial Owners, and all subsequent holders of the Bonds will be deemed to have consented to the New Master Indenture, which amends and restates the Prior Master Indenture, all as described herein. 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.

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

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

The Bonds are offered when, as and if received by the Underwriters, subject to prior sale, to the withdrawal or modification of the offer without notice, and to the approval of the validity of the Bonds and certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, the approval of certain matters for the Corporation by its counsel, Ropes & Gray LLP, for the Authority by its counsel, the Honorable Rob Bonta, Attorney General of the State of California, and for the Underwriters by their counsel, Norton Rose Fulbright US LLP. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC, on or about September 27, 2023.

HONORABLE FIONA MA
Treasurer of the State of California
As Agent for Sale

MORGAN STANLEY ***RBC CAPITAL MARKETS***

September 12, 2023

† *See "RATINGS."*

$260,545,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Revenue Bonds
(STANFORD HEALTH CARE)
2023 Series A

MATURITY SCHEDULE

$260,545,000 5.00% Bonds due August 15, 2033 – Price: 115.145; Yield: 3.200%
CUSIP† 13032UH68

† CUSIP is a registered trademark of the American Bankers Association (the "ABA"). CUSIP data is provided by CUSIP Global Services, which is managed on behalf of the ABA by FactSet Research Systems Inc. The CUSIP number listed above is being provided solely for the convenience of the holders of the Bonds only at the time of issuance of the Bonds, and none of the Authority, the Corporation or the Underwriters makes any representation with respect to such CUSIP number or undertakes any responsibility for the accuracy now or at any time in the future.

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

The information relating to the Authority set forth herein under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority" has been furnished by the Authority. The Authority does not warrant the accuracy of the statements contained herein relating to the Corporation nor does it directly or indirectly guarantee, endorse or warrant (1) the creditworthiness or credit standing of the Corporation, (2) the sufficiency of the security for the Bonds or (3) the value or investment quality of the Bonds. The Authority makes no representations or warranties whatsoever with respect to any information contained therein except for the information under the sections entitled "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION—The Authority."

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

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

References to website 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 websites and the information or links contained therein are not incorporated into and are not a part of this Official Statement.

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

Neither the Bonds nor Obligation No. 46 have been registered under the Securities Act of 1933, as amended, or the securities laws of any state, nor have the Master Indenture or the Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. In certain states, the filing of a notice with the state securities commission is required for the public sale of the Bonds in such states. The fact that a notice may have been filed in certain states cannot be regarded as a recommendation. Neither such states nor any of their respective agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

The Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment accounts) and to others at prices lower than the public offering prices set forth on the inside cover page of this Official Statement.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

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

A wide variety of information, including financial information concerning the Corporation, is available from publications and websites of the Corporation and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted herein.

In making an investment decision, investors must rely on their own examination of the issue and the terms of the offering, including the merits and risks involved.

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OFFICIAL STATEMENT

$260,545,000
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Revenue Bonds
(STANFORD HEALTH CARE)
2023 Series A

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein or in Appendix D have the same meaning as in the Master Indenture or the Indenture (each as defined below). See APPENDIX C-1 – "FORM OF MASTER INDENTURE" and APPENDIX D – "SUMMARY OF INDENTURE AND LOAN AGREEMENT—DEFINITIONS OF CERTAIN TERMS."

Purpose of this Official Statement

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the sale and delivery of $260,545,000 total aggregate principal amount of California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A (the "Bonds").

The Bonds will be issued pursuant to and secured by an Indenture, dated as of September 1, 2023 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to Stanford Health Care, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a Loan Agreement, dated as of September 1, 2023 (the "Loan Agreement"), between the Authority and the Corporation.

The Bonds will be issued in a Fixed Period that extends to the maturity date of the Bonds.

Stanford Health Care

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

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

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

Plan of Finance

The issuance of the Bonds is a component of the Corporation's financing plan. The proceeds of the Bonds will be used to finance (including through reimbursement of expenditures made for such purposes) the costs of acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of certain existing health care facilities of the Corporation (the "Project"). Costs of issuance related to the Bonds, including underwriters' compensation, will be paid by the Corporation.

Additionally, the Authority expects to establish a commercial paper program for the benefit of the Corporation (the "CP Program"), in the principal amount not to exceed $200,000,000, on or about the date of the issuance of the Bonds. As of the date of this Official Statement, the Corporation 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 Bonds is not contingent on the Corporation'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.

Security for the Bonds

The Bonds are limited obligations of the Authority secured under the provisions of the Indenture, and will be payable from payments (the "Loan Repayments") made by the Corporation under the Loan Agreement, from payments made by the Corporation on Obligation No. 46 (hereinafter defined), and from certain funds held under the Indenture. Pursuant to the Loan Agreement, the Corporation is required to make Loan Repayments in an amount sufficient to enable the Authority to pay in full, when due, the principal or Redemption Price of and interest on the Bonds.

The obligation of the Corporation to make payments under the Loan Agreement with respect to the Bonds will be further evidenced and secured by an obligation ("Obligation No. 46") to be issued under the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 and effective as of June 16, 2011, as supplemented and amended (the "Prior Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), as supplemented by the Supplemental Master Indenture for Obligation No. 46, dated as of September 1, 2023 ("Supplement No. 46"), between the Corporation and the Master Trustee.

Concurrent with the issuance of the Bonds, the Prior Master Indenture is being amended and restated by the Second Amended and Restated Master Indenture of Trust, dated as of September 1, 2023 (the "New Master Indenture"), between the Corporation and the Master Trustee. The New Master Indenture, as supplemented and amended from time to time pursuant to its terms, is herein referred to as the "Master Indenture." For additional information, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—The Master Indenture" herein. ***By purchasing the Bonds offered hereunder, the Holders, Beneficial Owners, and all subsequent holders of the Bonds will be deemed to have consented to the New Master Indenture. 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***.

The New Master Indenture provides that, until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations then Outstanding, certain actions may continue to be taken upon the direction of the Holders of 25% of Outstanding Obligations. After the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations then Outstanding, such actions may be taken only upon the direction of the Holders of a majority in aggregate principal amount of Outstanding Obligations (the "Percentage Amendments"). See APPENDIX C-1 – "FORM OF MASTER INDENTURE—Section 4.14. Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies" and APPENDIX C-2 – "FORM OF SUPPLEMENT NO. 46—Section 14. Ratification of Master Indenture; Agreement to Consent to Amendment of Percentages Specified in Event of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies; and Agreement to Execute Second Amended and Restated Master Indenture of Trust." ***By purchasing the Bonds offered hereunder, the purchasers, Beneficial Owners, and all subsequent holders thereof will be deemed to have consented to the Percentage Amendments, as set forth in the Master Indenture. 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.

The Corporation is in the process of seeking additional consents to the Percentage Amendments.

The obligations of the Corporation with respect to the CP Program will be evidenced by an Obligation issued by the Corporation under the Master Indenture which will rank on a parity with all Obligations issued under the Master Indenture, including Obligation No. 46. Obligation No. 46, the Obligation relating to the CP Program, the outstanding Obligations relating to other indebtedness and obligations of the Corporation (as described below), and any other Obligations issued in the future under the Master Indenture (each an "Obligation" and collectively, the "Obligations"), will be secured by a security interest in the Gross Receivables of each Member of the Obligated Group. Currently, the Corporation is the only Member of the Obligated Group.

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

See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

Additional Indebtedness

No bonds other than the Bonds may be issued under the Indenture. However, as described below under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Corporation is permitted to incur additional indebtedness under the Master Indenture. For a description of certain events that may require the incurrence of additional indebtedness of the Corporation, see "SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs" in APPENDIX A attached hereto.

Bondholders' Risks

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

Availability of Documents

Copies of the Indenture, the Loan Agreement, Obligation No. 46 and the Continuing Disclosure Agreement, each as executed and delivered, may be examined or obtained at the expense of the person requesting the same at the corporate offices of the Corporation or at the designated corporate trust office of the Trustee.

THE AUTHORITY

General

The Authority is a public instrumentality of the State of California (the "State") organized and existing under and by virtue of the California Health Facilities Financing Authority Act, constituting Part 7.2 of Division 3 of Title 2 of the California Government Code (the "Act"). The intent of the State legislature in enacting the Act was to provide financing to health facilities and to pass along to the consuming public all or part of any savings realized by a participating health institution (as defined in the Act) as a result of tax-exempt financing. Pursuant to the Act, the Authority is authorized to issue its revenue bonds for the purpose of financing (including reimbursing expenditures made or refinancing indebtedness incurred for such purpose) the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of health facilities operated by participating health institutions. The State Treasurer is authorized under the Act to sell such revenue bonds on behalf of the Authority.

Organization and Membership

The Act provides that the Authority shall consist of nine members, including the State Treasurer, who shall serve as Chairperson, the State Controller, the Director of Finance and two members appointed by each of the State

Senate Rules Committee, the Speaker of the State Assembly and the Governor of the State. The Chairperson of the Authority appoints the Executive Director.

Outstanding Indebtedness of the Authority

As of June 30, 2023, the Authority had issued obligations aggregating $47,532,240,017 in original principal amount and had outstanding obligations in the aggregate principal amount of $16,692,704,935.

THE BONDS

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

General

The Bonds will be issued in a Fixed Period that extends to the maturity date and will bear interest at the Fixed Rate set forth on the inside cover page of this Official Statement. The Bonds will be issued in the denomination of $5,000 or any integral multiple thereof. The Bonds will be dated the date of delivery and will bear interest from such date, payable on February 15 and August 15 of each year, commencing on February 15, 2024 (each an "Interest Payment Date"). Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds will be transferable and exchangeable as set forth in the Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 and any integral multiple thereof. See "THE BONDS—Book-Entry System." So long as Cede & Co. is the registered owner of the Bonds, principal or Redemption Price of and interest on the 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 herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX F – "BOOK-ENTRY SYSTEM."

If the book-entry system for the Bonds is ever discontinued, the principal or Redemption Price of the Bonds will be payable in lawful money of the United States of America at the Principal Office of the Trustee, and payment of the interest on any Bond will be made on each Interest Payment Date to the Holder thereof as of the close of business on the first day of the calendar month in which such Interest Payment Date falls (the "Record Date") for each Interest Payment Date by check mailed on each Interest Payment Date to such Holder at such Holder's address as it appears on the registration books maintained by the Trustee; provided, however, that the Holder of $1,000,000 or more in aggregate principal amount of Bonds may be paid by wire transfer to an account within the United States upon written request filed with the Trustee prior to the Record Date for the applicable Interest Payment Date. If available funds are insufficient on any Interest Payment Date to pay the interest then due on the Bonds, interest will continue to accrue thereon but will cease to be payable to the Holders as of the related Record Date. If sufficient funds for the payment of such overdue interest thereafter become available, the Trustee will establish a special interest payment date for the payment of the overdue interest and a Special Record Date (which will be a Business Day) for determining the Bondholders entitled to such payment. Notice of each such date so established will be mailed to each Bondholder at least 10 days prior to the Special Record Date but not more than 30 days prior to the special interest payment date. The overdue interest will be paid on the special interest payment date to the Holders, as shown on the registration books of the Trustee as of the close of business on the Special Record Date.

Redemption

Special Redemption. The Bonds are subject to redemption prior to their stated maturity, at the option of the Authority, which option will be exercised upon Request of the Corporation given to the Trustee at least 25 days prior to the date fixed for such redemption (unless a lesser number of days is acceptable to the Trustee, in the sole discretion of the Trustee), in whole or in part (and, if in part, in such amounts as may be specified by the Corporation and in Authorized Denominations), on any date, from hazard insurance or condemnation proceeds received with respect to

the facilities of any of the Members and deposited in the Redemption Fund, at a Redemption Price equal to the principal amount thereof, plus accrued interest thereon (if any) to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, except as otherwise provided in the Indenture, the Trustee will select the Bonds to be redeemed from all Bonds subject to redemption or such given portion thereof equal to a multiple of Authorized Denominations not previously called for redemption as are designated by the Corporation, or, if the Corporation fails to so designate, by lot.

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

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

Any notice given pursuant to the provisions of the Indenture described under this caption may be rescinded by written notice given to the Trustee by the Corporation no later than four Business Days prior to the date specified for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same parties, as notice of such redemption was given pursuant to the Indenture.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest on the Bonds

so called for redemption will cease to accrue, said the Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said the Bonds will have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

All the Bonds redeemed pursuant to the provisions of the Indenture will be cancelled upon surrender thereof.

Book-Entry System

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

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

Notice to Bondholders

All notices to Bondholders required by the Indenture will be deemed to have been sufficiently given or served for all purposes under the Indenture by being delivered by first-class mail, by overnight delivery or by Electronic Notice.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

To secure the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms and the provisions of the Indenture, the Authority under the Indenture pledges to the Trustee, and grants to the Trustee a security interest in and lien on, all of its right, title and interest, whether now owned or hereafter acquired, in to, and under (i) all of the Revenues, (ii) each fund and each account established pursuant to the Indenture (except the Bond Purchase Fund and the Rebate Fund) and all money, instruments, securities, investment property, and other property on deposit in or credited to any fund or account established pursuant to the Indenture (except the Bond Purchase Fund and the Rebate Fund), (iii) the Loan Agreement (excluding (a) the right to receive any Additional Payments or Administrative Fees and Expenses to the extent payable to the Authority, (b) any rights of the Authority to be indemnified, held harmless and defended and rights to inspection and to receive notices, certificates or opinions, (c) express rights to give approvals, consents or waivers, and (d) the obligation of the Corporation to make deposits pursuant to the Tax Agreement), (iv) Obligation No. 46, and (v) all proceeds of the foregoing. "Revenues" mean all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 46, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture, but not including any Additional Payments or Administrative Fees and Expenses or any moneys required to be deposited to, or on deposit in, the Rebate Fund or the Bond Purchase Fund.

In the Loan Agreement, the Corporation agrees to pay or cause to be paid to the Trustee "Loan Repayments" in an amount sufficient for the Trustee to make the transfers and deposits required under the Indenture to enable the Trustee to pay in full of all amounts payable with respect to the principal or Redemption Price of and interest on the Bonds at maturity. The Corporation shall receive credit against it Loan Repayments in an amount equal to moneys

deposited in the Interest Account and Principal Account established under the Indenture and held by the Trustee, which amounts are available to pay interest and principal on the Bonds, to the extent such amounts have not previously been credited against such payments.

To further secure payment of the principal of and interest on the Bonds, the Corporation, as Obligated Group Representative, will issue Obligation No. 46 under the Master Indenture, pursuant to which the Members of the Obligated Group (including any future Members) agree to make payments to the Trustee in amounts sufficient to pay, when due, the principal or Redemption Price of and interest on the Bonds. Each Member of the Obligated Group jointly and severally agrees to make payments on the Obligations issued under the Master Indenture, including Obligation No. 46. See "—The Master Indenture" below and see also APPENDIX C-2 – "FORM OF SUPPLEMENT NO. 46."

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

The Master Indenture

Effectiveness of the Master Indenture. In connection with the issuance of the Bonds, the Corporation intends to effectuate a new master indenture through the amendment and restatement of the Prior Master Indenture by the New Master Indenture. For the form of the New Master Indenture, see APPENDIX C-1 – "FORM OF MASTER INDENTURE." The Prior Master Indenture provides that the New Master Indenture will become effective when the Corporation secures the consent of the Holders of a majority in aggregate principal amount of Obligations Outstanding thereunder.

By purchasing the Bonds offered hereunder, the Holders, Beneficial Owners and subsequent purchasers of the Bonds will be deemed to have consented to the New Master Indenture.

After giving effect to the issuance of the Bonds, the consent of 51.0% of the Holders of Obligations Outstanding under the Prior Master Indenture, including Obligation No. 46, will have been obtained with respect to the New Master Indenture. Obligation No. 46 is being issued under the Prior Master Indenture to secure the Bonds. Following the amendment and restatement of the Prior Master Indenture on the date of issuance of the Bonds, all of the Obligations (including Obligation No. 46 issued under the Prior Master Indenture) will continue to be Outstanding as Obligations under the New Master Indenture. The New Master Indenture, as supplemented and amended from time to time pursuant to its terms, is herein referred to as the "Master Indenture."

Notwithstanding the effectiveness of the New Master Indenture, the Percentage Amendments therein will not be effective until the Corporation secures the consent of the Holders of 100% in aggregate principal amount of Obligations Outstanding. See APPENDIX C-1 – "FORM OF MASTER INDENTURE—Section 4.14. Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies" and APPENDIX C-2 – "FORM OF SUPPLEMENT NO. 46—Section 14. Ratification of Master Indenture; Agreement to Consent to Amendment of Percentages Specified in Event of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies; and Agreement to Execute Second Amended and Restated Master Indenture of Trust."

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

Obligation No. 46 is being issued by the Corporation under and pursuant to the Prior Master Indenture on a parity with all other Obligations issued thereunder and to be issued under the Master Indenture. See "Outstanding Obligations Under the Master Indenture" below. All Members of the Obligated Group are required to make payments on Obligation No. 46 in amounts sufficient to pay the principal or Redemption Price of and interest on the Bonds when due. For a discussion of entry into or withdrawal from the Obligated Group, see APPENDIX C-1 – "FORM OF

MASTER INDENTURE—Section 3.12. Membership in Obligated Group" and "—Section 3.13. Withdrawal from Obligated Group."

Outstanding Obligations Under the Master Indenture. Upon the issuance of the Bonds and the establishment of the CP Program (if established), Obligations outstanding under the Master Indenture will secure (i) approximately $2.5 billion in aggregate principal amount of indebtedness related to tax-exempt revenue and taxable bonds issued by or for the benefit of the Corporation, (ii) the Corporation's obligations to make payments with respect to notes issued from time to time pursuant to the CP Program and a taxable commercial paper program previously established by the Corporation and (iii) the Corporation'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 the Corporation 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. 46, which evidences and secures the Corporation's obligations to make payments under the Loan Agreement, will be secured by a security interest in the Gross Receivables (described below). Except for the pledge of the Gross Receivables, 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 possible that Obligations under the Master Indenture will exceed the value of Gross Receivables of the Members 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 Receivables. To secure its obligations to make Required Payments under the Master Indenture and its other obligations, agreements and covenants to be performed and observed thereunder, each Obligated Group Member under the Master Indenture grants to the Master Trustee a security interest in all of its Gross Receivables. "Gross Receivables" under the Master Indenture means all accounts and health care insurance receivables (as such terms are defined in the Uniform Commercial Code of the State of California, as amended (the "UCC")), whether now existing or hereafter created or arising, and proceeds thereof. The Master Indenture will be deemed a "security agreement" for purposes of the UCC. See APPENDIX C-1 – "FORM OF MASTER INDENTURE—Section 3.06. Gross Receivables Pledge."

Perfection of a Security Interest. The security interest in Gross Receivables will be perfected to the extent, and only to the extent, that such security interest may be perfected by the filing of financing statements in accordance with the UCC. To continue such perfection of the security interest in Gross Receivables, continuation statements meeting the requirements of the UCC must be filed periodically. The security interest in the Gross Receivables may not be enforceable against third parties unless the Gross Receivables are transferred to the Master Trustee, which transfer the Obligated Group Members are not required to make, and is subject to certain exceptions under the UCC. The Master Trustee may not be able to compel the Medicare or Medicaid programs or other third parties to make payments directly to the Master Trustee. The enforcement of the security interest in the Gross Receivables may be further limited by the following: (i) statutory liens; (ii) rights arising in favor of the United States of America or any agency thereof; (iii) present or future prohibitions against assignment contained in any federal or state statutes or regulations; (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction; and (v) federal bankruptcy laws, state receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture or the security interest in the Gross Receivables. See APPENDIX C-1 – "FORM OF MASTER INDENTURE—Section 3.06. Gross Receivables Pledge."

Even if the lien on Gross Receivables is perfected, the lien may not be of first priority. Upon written request from the Obligated Group Representative, the Master Trustee will take all procedural steps necessary, as specified in writing by the Obligated Group Representative, to effect the subordination of its security interest in the Gross Receivables granted in the Master Indenture to security interests constituting Permitted Liens.

Additional Indebtedness; Disposition of Assets. The Master Indenture does not include any limitations on the Obligated Group's ability to incur additional Indebtedness or dispose of assets.

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, merger, consolidation, sale or conveyance, encumbrances, and other matters. See APPENDIX C-1 – "FORM OF MASTER INDENTURE—Article III. Payments; Obligated Group Covenants."

Replacement of Obligation No. 46. The Indenture provides that, upon the satisfaction of certain conditions, Obligation No. 46 may be surrendered by the Trustee, at the option of the Corporation and without the consent of any Holder of the Bonds, in exchange for a replacement obligation issued under a different master indenture securing the obligations of a different obligated group that also includes the Corporation. Any such replacement obligation may be secured differently than Obligation No. 46 and may be backed by an obligated group that is financially and operationally different from the then current Obligated Group. Such new obligated group could have substantial debt outstanding that would rank on a parity with the replacement obligation. See APPENDIX D – "SUMMARY OF INDENTURE AND LOAN AGREEMENT—INDENTURE—Certain Covenants—Replacement of Obligation No. 46."

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. 46) 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. 46. See APPENDIX C-1 – "FORM OF MASTER INDENTURE—Article VI. Supplements and Amendments."

For the full and complete text of the Master Indenture, see APPENDIX C – "FORM OF MASTER INDENTURE."

Security and Enforceability

Limitations on Enforceability. The obligations of the Members of the Obligated Group under Obligation No. 46 and the Master Indenture will be limited in the event of bankruptcy or insolvency, including as described below. Although upon the issuance of the Bonds, the Corporation 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. 46" 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 Authority and the Trustee to enforce their rights and remedies against the Corporation under the Indenture and the Loan Agreement and against the Corporation or any future Member of the Obligated Group under Obligation No. 46, and of the Master Trustee to enforce its rights and remedies against the Corporation 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. In the event of bankruptcy of an Obligated Group Member, the rights and remedies of the Bondholders are subject to various provisions of the Federal Bankruptcy Code. If an Obligated Group Member were to file a petition in bankruptcy, payments made by that Obligated Group Member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such Obligated Group Member's liquidation. Security interests and other liens granted to the Trustee or the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Obligated Group Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property, as well as various other actions to enforce, maintain or enhance the rights of the Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of the Obligated Group Member, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such Obligated Group Member despite any security interest of the Master Trustee therein. The rights of the Trustee and the Master Trustee to enforce their respective security interests and other liens could be delayed during the pendency of the rehabilitation proceeding. Such Obligated Group Member could file a plan for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it will have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

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

Enforceability of Obligation No. 46. The joint and several obligations described herein of each Member of the Obligated Group to make Required Payments on Obligation No. 46 may not be enforceable or the tax-exempt status of the Bonds may be adversely affected under any of the following circumstances:

(a) to the extent payments on Obligation No. 46 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. 46 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. 46 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. 46 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 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 Loan Agreement. The legal right and practical ability of the Trustee to enforce rights and remedies under the Loan Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE, SEE APPENDIX C-1 – "FORM OF MASTER INDENTURE," APPENDIX C-2 – "FORM OF SUPPLEMENT NO. 46" and APPENDIX D – "SUMMARY OF INDENTURE AND LOAN AGREEMENT."

Limited Liability of the Authority

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS THEREFOR PROVIDED. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF THE BONDS, OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 46 AND THE OTHER ASSETS PLEDGED UNDER THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF THE BONDS, OR THE INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

THE PLAN OF FINANCE

The Bonds

The proceeds of the Bonds will be applied to the financing of the Project. The Corporation will pay all costs of issuance related to the Bonds, including underwriters' compensation, from its internal funds.

The CP Program

On or about the date of issuance of the Bonds, the Authority expects to establish the CP Program for the benefit of the Corporation in the principal amount not to exceed $200,000,000. As of the date of this Official Statement, the Corporation 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 Bonds is not contingent on the Corporation's establishment of the CP Program or the issuance of any notes pursuant thereto.

ESTIMATED SOURCES AND USES OF FUNDS

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

Estimated Sources of Funds	
Par Amount	$260,545,000
Original Issue Premium	39,459,540
Equity Contribution	2,044,773
Total	$302,049,313
Estimated Uses of Funds	
Project Fund	$300,004,540
Costs of Issuance [(1)]	2,044,773
Total	$302,049,313

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

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DEBT SERVICE REQUIREMENTS

The following table sets forth, for each of the Corporation's fiscal years ending August 31, the amounts required to be paid by the Corporation for payment of the principal and interest on the Bonds. The table also sets forth debt service on all bonds previously issued for the benefit of the Corporation that will be outstanding after the issuance of the Bonds.

	Bonds					
Year Ending August 31	Principal	Interest	Total Debt Service on Bonds	Total Debt Service on Other Outstanding Bonds [1]	Total Debt Service [1]	Aggregate Debt Service per Master Indenture [1][2]
2024	-	$11,507,404	$ 11,507,404	$ 94,977,489	$106,484,893	$137,678,803
2025	-	13,027,250	13,027,250	98,327,265	111,354,515	142,106,565
2026	-	13,027,250	13,027,250	100,480,947	113,508,197	144,260,605
2027	-	13,027,250	13,027,250	100,385,947	113,413,197	144,166,315
2028	-	13,027,250	13,027,250	100,350,694	113,377,944	144,130,443
2029	-	13,027,250	13,027,250	100,271,115	113,298,365	144,050,941
2030	-	13,027,250	13,027,250	400,238,507	413,265,757	144,015,268
2031	-	13,027,250	13,027,250	90,239,297	103,266,547	143,945,897
2032	-	13,027,250	13,027,250	90,174,459	103,201,709	143,878,730
2033	$260,545,000	13,027,250	273,572,250	90,134,045	363,706,295	143,840,673
2034	-	-	-	89,932,352	89,932,352	143,631,720
2035	-	-	-	89,708,657	89,708,657	143,412,019
2036	-	-	-	85,360,584	85,360,584	139,068,465
2037	-	-	-	85,387,460	85,387,460	139,092,871
2038	-	-	-	88,034,682	88,034,682	141,739,311
2039	-	-	-	88,049,277	88,049,277	141,751,968
2040	-	-	-	87,530,344	87,530,344	141,233,193
2041	-	-	-	85,047,710	85,047,710	138,755,834
2042	-	-	-	83,593,780	83,593,780	137,299,082
2043	-	-	-	83,727,678	83,727,678	137,430,238
2044	-	-	-	84,322,756	84,322,756	138,029,208
2045	-	-	-	84,619,471	84,619,471	138,325,103
2046	-	-	-	85,080,690	85,080,690	138,783,170
2047	-	-	-	48,244,497	48,244,497	101,951,934
2048	-	-	-	48,148,997	48,148,997	101,853,493
2049	-	-	-	538,565,437	538,565,437	101,756,958
2050	-	-	-	199,101,317	199,101,317	101,659,954
2051	-	-	-	387,179,337	387,179,337	101,569,226
2052	-	-	-	61,080,020	61,080,020	151,611,284
2053	-	-	-	60,444,430	60,444,430	150,974,599
2054	-	-	-	59,816,340	59,816,340	59,816,340
	$260,545,000	$128,752,654	$389,297,654	$3,788,555,582	$4,177,853,236	$4,121,820,210

Note: Numbers in certain rows and columns may not total due to rounding. Includes de minimis rounding adjustments.

(1) Assumes interest on all variable rate bonds is payable at the assumed rate of 2.80% to maturity; assumes interest on the Authority's 2021 Series A Bonds issued for the benefit of the Corporation is payable at the assumed rate of 2.80% to maturity after the August 15, 2025 mandatory tender date; excludes swap cash flow. For more information concerning other outstanding bonds of the Corporation, see Note 9 of the audited consolidated financial statements of the Corporation included as Appendix B to this Official Statement.

(2) Pursuant to the terms of the Master Indenture, reflects smoothed debt service over 30 years on Balloon Indebtedness; assumes the Bonds, the Corporation's Series 2018 Taxable Bonds, the Authority's 2020 Series A Bonds issued for the benefit of the Corporation, the Corporation's Series 2020 Taxable Bonds, and the Corporation's Series 2021 Taxable Bonds have level debt service over 30 years at the assumed rate of 3.87%.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation and future Members of the Obligated Group, if any, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority has not provided any such information. The Corporation, on behalf of the Obligated Group, has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the

Authority has no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

In connection with the issuance of the Bonds, the Corporation, on behalf of the Obligated Group, will enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") with U.S. Bank Trust Company, National Association, acting as dissemination agent. Pursuant to the Continuing Disclosure Agreement, the Corporation, for the benefit of Holders and Beneficial Owners of the Bonds, will agree to provide for dissemination: (i) certain financial information and operating data relating to the Obligated Group by not later than five months following the end of the Corporation's fiscal year (which currently is August 31) (the "Annual Report"), commencing with the report for the fiscal year ended August 31, 2023 (due January 31, 2024), and (ii) notices of the occurrence of certain enumerated events, as required by the Rule. The Annual Report and the notices of material events will be filed by the Corporation, in readable PDF or other acceptable electronic form, with the Electronic Municipal Market Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"). See APPENDIX G – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for the specific nature of the information to be contained in the Annual Report and the notices of material events. These covenants have been made in order to assist the Underwriters in complying with the Rule.

The Corporation additionally has covenanted that it will file with EMMA, not later than two months after the end of each fiscal quarter (except the fourth fiscal quarter), certain unaudited financial information for the Obligated Group for such fiscal quarter prepared by the Corporation. See APPENDIX G – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

The Corporation has complied in all material respects with its obligations under its continuing disclosure undertakings during the previous five years; provided that, with respect to continuing disclosure obligations relating only to the Authority's Revenue Bonds (Stanford Health Care) 2020 Series A, the notice regarding the incurrence of the Corporation's publicly offered Series 2021 Taxable Bonds was filed subsequent to the applicable deadline.

BONDHOLDERS' RISKS

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

General

Except as noted under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Bonds are payable from Loan Repayments made pursuant to the Loan Agreement and from funds provided under Obligation No. 46 and the Indenture. **No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the Loan Repayments and hence the debt service on the Bonds.**

The Corporation is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and 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, 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

the Corporation and any future Member of the Obligated Group under the Loan Agreement and Obligation No. 46 and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation and any future Member of the Obligated Group, and, therefore, of the Bonds, 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 or Other Pandemic or Public Health Emergency

General. A public health emergency, including a widespread outbreak of an infectious disease, such as the novel coronavirus ("COVID-19"), Ebola, Zika, or H1N1, may put stress on the capacity of all or a part of the Corporation's health care facilities, result in abnormally high demand for health care services, require that resources be diverted from one part of operations of the Corporation to another part, disrupt the supply chain for equipment and supplies necessary for the operation of the Corporation's facilities, or impair the operation of part or all of the Corporation's facilities. Public health emergencies can necessitate the cessation of outpatient treatment and elective procedures. In addition, unaffected individuals may decide to defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues at the Corporation's outpatient facilities. The effect of any future public health emergency or crisis on the Corporation's operations and finances could be material and cannot be predicted at this time.

CARES Act Compliance. The federal Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") created 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"). The retention of funds from the Provider Relief Fund is conditioned on eligibility and the acceptance of terms and conditions, and other guidelines or requirements that may change from time to time, including with respect to recordkeeping and repayment requirements.

DHHS is actively auditing recipients of Provider Relief Fund funds to ensure compliance with the terms and conditions thereof. Failure to comply with such terms and conditions could result in recoupment, False Claims Act liability, or other penalty.

Other Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of hospitals and health systems similar to those operated by the Corporation are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial condition and results of operations of the Corporation or any future Member of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Loan Agreement and Obligation No. 46.

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 the Corporation 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 the Corporation, although such impact may be material. Additionally, the market price or marketability of the 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 the Bonds under federal or state law or otherwise prevent beneficial owners of the Bonds 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 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. Increases in the rate of inflation may impact overall operating expenses and capital expenditures. These factors may have a material adverse impact on hospitals and other health care providers. For a discussion of these risks with regard to the Corporation, in particular the Corporation's recent results of operations and statement of financial position and

performance of the Corporation's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD 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 the Corporation 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 the Corporation. Significant changes in the obligations of nonprofit, tax-exempt hospitals and challenges to or loss of the tax-exempt status of nonprofit hospitals generally, or the Corporation in particular, could have a material adverse effect on the Corporation. See "—Tax-Exempt Status and Other Tax Matters—Maintenance of Tax-Exempt Status of Interest on the Bonds" 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.

The Corporation adopted an amendment, effective March 31, 2023, to terminate its defined benefit pension plan, which had been closed to new participants since 1997, permitting eligible participants to receive a lump sum distribution or have their benefits transferred to a third-party annuity provider. Final true-up contributions in connection with the annuity contract purchase are expected to be incurred by January 31, 2024. 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, peer review litigation with physicians, and wage-and-hour matters, 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. 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 the Corporation. 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 the Corporation. 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 the Corporation.

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 the Corporation 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. 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 the Corporation, any of which individually or collectively could have a material adverse effect on the operations, financial condition and financial performance of the Corporation.

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 the Corporation. 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 the Corporation. 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 Official Statement, 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 the Corporation, any of which individually or collectively may have a material adverse effect on the operations, financial condition and financial performance of Corporation 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 the Corporation's care for greater numbers of uninsured individuals.

Executive branch actions can also have a significant impact on the viability of the ACA. On January 1, 2021, the CMS Price Transparency Rule (the "Price Transparency Rule") went into effect, requiring hospitals to publish gross charges, discounted cash prices, payor-specific negotiated charges, and minimum and maximum negotiated charges for all items and services provided by the hospital. Hospitals are also required to publish a consumer-friendly list of standard charges for at least 300 shoppable services—generally, non-emergency services that patients can schedule in advance. Failure to comply with these requirements may result in daily monetary penalties to the hospital. Initially, the penalty for noncompliance by a hospital was a maximum of $109,500 annually. However, CMS, in response to widespread noncompliance with the Price Transparency Rule, finalized a rule change in 2022 that increased the maximum penalty for hospitals with over 550 beds to $2,007,500, and for hospitals with a range of 31 beds through 549 beds, a civil monetary penalty of $10 per bed per day, with the total maximum penalty being just under $2 million. The Price Transparency Rule could result in further legislative or regulatory action to restrain hospital rates or charges. Additionally, the availability of competitively sensitive rate information among hospitals, insurers, and employer sponsors of group health plans could lead to market distortions and possible anti-competitive effects that could affect hospital rates and revenue. The publication of hospital standard charges, including negotiated charges, could also result in changes to patient choice that may negatively affect the Corporation. Accordingly, compliance with the Price Transparency Rule could have a material adverse effect upon the future financial condition and operations of the Corporation.

The "No Surprises Act" was passed as part of the Consolidated Appropriations Act of 2021 (the "CAA") on December 27, 2020, to address costly bills that patients may receive after unknowingly receiving out-of-network care. The No Surprises Act requires that health plans hold patients harmless from surprise bills, requiring individuals to pay only the in-network cost-sharing amount for out-of-network emergency care, ancillary services provided at in-network facilities by out-of-network providers, and out-of-network care provided at in-network facilities without a patient's informed consent. The law provides for a 30-day negotiation period for providers and payers to settle out-of-network claims. If no agreement is reached after this period, either party may opt for a binding independent dispute resolution ("IDR") process. CMS regulations and guidance implementing the IDR process has been subject to a significant amount of provider-initiated litigation. As a result, portions of those regulations and guidance materials have been vacated by a federal district court, causing CMS to, on several occasions, pause and resume IDR process operations, causing significant delay in the processing of claims. Additionally, arguments made by the plaintiffs in such litigation have included allegations that CMS's regulations and guidance materials are favorable to payers. For these reasons, there can be no assurances that the Corporation will receive timely payments in connection with this process.

Additionally, the No Surprises Act includes transparency requirements for health plans to communicate in-network and out-of-network deductibles, as well as out-of-pocket maximums. The statute also includes language requiring health plans to have publicly available, online, and up-to-date directories for their in-network providers and to offer a price comparison tool for consumers.

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 the Corporation. 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 the Corporation. 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 the Corporation, and upon the operations, results of operations and financial condition of the Corporation 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 May 2022, California has extended health care benefits to individuals 19 to 25 years of age and 50 years of age or older, regardless of their immigration status, increased eligibility for subsidies to purchase health plans through Covered California, and implemented a state version of the individual mandate. Starting in January 2024, the State will extend health care benefits to individuals 26 to 49 years of age, regardless of their immigration status.

While management cannot predict the effect of these changes to the Medicaid program on operations, results from operations or the financial condition of the Corporation, 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 the Corporation. 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 the Corporation. 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.

California Health Care Quality and Affordability Act

In 2022, California enacted the California Health Care Quality and Affordability Act (the "CHCQA") to promote accessible, affordable, equitable, high-quality, and universal health care in California. The law uses delivery reform, incentives, targets, and increased public scrutiny to achieve these goals. The CHCQA provides for (i) the creation of boards and agencies that establish and monitor annual health care cost targets (applicable to "health care entities," including health insurance payors, health care providers, and fully integrated delivery systems), monitor market consolidation, and undertake health resource planning, (ii) the encouragement of alternative payment methodologies and delivery systems, including increased price, quality, and equity transparency, investment in primary care and behavioral health, (iii) and advancement of health care workforce stability. The agencies created pursuant to the CHCQA include the Office of Health Care Affordability ("OHCA") and the Health Care Affordability Board ("HCAB"), each of which sit within the California Department of Health Care Access and Information ("HCAi").

The CHCQA requires that HCAB establish a statewide health care cost growth target for the health care entities, including the Corporation, starting in 2025, as well as specific targets by health care sector (*e.g.*, specific targets for fully integrated delivery systems or targets by geographic region) starting in 2028. HCAi is permitted to require entities that exceed the health care cost targets to prepare and implement performance improvement plans identifying actions to be taken to address the cause of excessive cost growth. Noncompliance with a HCAi-imposed performance improvement plan may result in the imposition of administrative penalties on health care entities.

Beginning April 1, 2024, any health care entity planning to undergo certain material transactions, including transfer of control and sales of material assets, will be required to provide OHCA with advanced notice of such transactions. If OHCA finds that the transaction is likely to have a risk of significant impact on market competition, California's ability to meet the health care cost targets, or costs for purchases and consumers of health care, then OHCA may conduct a cost and market impact review ("CMIR") to further assess the impact of the proposed transaction on costs, while considering potential benefits of the transaction to consumers of health care. While OHCA does not have the statutory authority to, itself, prevent such material transactions from proceeding, following the completion of its CMIR, OHCA may refer its findings to the California State Attorney General pursuant to its authority to review unfair methods competition, anticompetitive behavior, and anticompetitive effects under California law.

As a "health care entity" under the CHCQA, the Corporation will be required to comply with the health care cost target developed by the HCAB. Once such cost target is developed, it may impede the Corporation's growth and may have a negative impact on its financial performance. Certain material transactions of the Corporation may be required to be submitted to OHCA for review, which may have negative impact the Corporation's ability to consummate such transactions.

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

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 the Corporation 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 the Corporation'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. Bonds issued for the benefit of the Corporation have been audited in the past. 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 the Corporation, 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 HCAi. 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. The Corporation 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 the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and, in turn, its ability to make payments under the Loan Agreement and Obligation No. 46.

Patient Service Revenues

Net patient service revenues realized by the Corporation are derived from a variety of sources. A substantial portion of the net patient service revenues of the Corporation 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 the Corporation in amounts that may not reflect the Corporation's direct and indirect costs of providing services to patients.

The financial performance of the Corporation 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 or 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. 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.

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 Adjustments. 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. The ACA provides for "market basket" adjustments based on overall national economic productivity statistics calculated by the Bureau of Labor Statistics. The market basket updates and the productivity adjustments may not reflect the increased cost of providing hospital services and, therefore, have had, and will continue to have, a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. The combination of reduced market basket updates and the imposition of the productivity adjustments may result in reductions in Medicare payment per discharge on a year-to-year basis.

Value-Based Purchasing. Medicare inpatient payments to hospitals are determined, in part, based on a program under which value-based incentive payments are made in a fiscal year to hospitals that meet certain performance standards during that fiscal year. The program is funded through the reduction of hospital inpatient care payments. Hospitals that perform poorly under the value-based purchasing program will receive reduced Medicare inpatient hospital payments. This reduction may be offset by incentive payments for hospitals that meet or exceed quality standards. In each federal fiscal year, the total amount collected from these reductions will be pooled and used to fund payments to reward hospitals that meet certain quality performance standards established by DHHS.

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/procedures (*i.e.*, acute myocardial infarction, heart failure, pneumonia, chronic obstructive pulmonary disease, coronary artery bypass graft, and total hip arthroplasty/total knee arthroplasty) are reduced based on the dollar value of that hospital's percentage of excess preventable Medicare readmissions within 30 days of discharge for such medical conditions. Hospital performance is assessed separately for each measure. The current maximum penalty is 3%. It is expected that CMS will continue to expand and refine the patient conditions that can lead to readmission payment adjustments.

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, most recently under the CAA. See "—Disproportionate Share Payments" below.

Medicare Advantage. Medicare Advantage is the managed care option for Medicare beneficiaries. Federal policymakers have been attentive to the cost of the Medicare Advantage program, relative to traditional fee-for-service Medicare, and fluctuations in Medicare Advantage payments by the federal government are common, 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 on Medicare Advantage program revenues. While CMS anticipates increasing Medicare Advantage payments by 3.32% in 2024, there can be no assurance that any such payment increases will continue into the future.

For information concerning the Medicare payments received by the Corporation for the fiscal years ended August 31, 2020, 2021 and 2022, 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 the Corporation 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 the Corporation, 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.

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 the Corporation. 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, 2018, hospital specific rates are based on 40% of the OPPS rate. Beginning January 1, 2019, CMS began applying a rate equivalent to that under the Physician Fee Schedule for certain evaluation and management services when provided at an off-campus hospital outpatient department that is paid under the OPPS, including at those hospital outpatient departments grandfathered under the Bipartisan Budget Act of 2015, stepping down from 70% of OPPS rates in 2019 and 40% of OPPS rates in 2020 and thereafter. As such, off-campus hospital outpatient departments of the Corporation are subject to reduced reimbursement, which may have a material adverse effect on the financial results of the Corporation.

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 the Corporation's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Medical Education Payments. The Corporation, as the operator of a teaching hospital, has historically received direct and indirect medical education reimbursement through the Medicare program. 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.

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. As of May 2023, Medi-Cal had an enrollment of approximately 16 million. 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. The ACA made changes to Medicaid funding and substantially increased 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. Attempts to balance or reduce the federal budget along with balanced-budget requirements in the State likely will negatively impact spending for Medicaid funding. Federal and state budget proposals contemplate significant cuts to Medicaid spending which likely will negatively impact provider reimbursement. Changes in the Medi-Cal program could materially and adversely affect the financial condition of the Corporation.

The Medi-Cal program operates under two primary care delivery models: Fee-For-Service ("FFS") Medi-Cal and Medi-Cal Managed Care. In the FFS Medi-Cal model, health care providers are reimbursed through a Medi-Cal Fiscal Intermediary. In the Medi-Cal Managed Care model, the California Department of Health Care Services ("DHCS") contracts with health insurance organizations to provide services to groups of Medi-Cal eligible persons in specific counties. Benefits paid under the Medi-Cal Managed Care plan vary by contract, and any non-covered managed care services are paid through the FFS Medi-Cal delivery model. Specialty Medi-Cal programs such as mental health, developmental services and personal care services are administered through other State departments.

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 the Corporation. During the COVID-19 public health emergency, the California DHCS delayed the processing of Medi-Cal annual redeterminations and delayed discontinuances and negative actions for Medi-Cal and other state and county healthcare programs. DHCS has resumed redeterminations, which may cause some of the Corporation's patients to lose their coverage.

While management of the Corporation cannot predict the effect of these changes to the Medi-Cal program on operations, results from operations or financial condition of the Corporation, 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 the Corporation. 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 the Corporation. See also "Health Care Reform" above.

On November 18, 2019, CMS published a Medicaid Fiscal Accountability Rule ("MFAR") 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 the Corporation 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 the Corporation, for the fiscal years ended August 31, 2020, 2021 and 2022, 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 and, further, may be subject to audits and retroactive audit adjustments with respect to reimbursement under these programs. CMS has implemented several programs, including the Medicare Integrity Program, the Recovery Audit Contractor Program, the Medicaid Integrity Program, and the Comprehensive Error Rate Testing Program to detect and correct improper payments across Medicare and Medicaid programs. These programs tend to result in retroactively reduced payment and higher administration costs to hospitals.

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, giving rise to potential FCA liability. 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. The Corporation 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" ("QAF") on California's general acute care hospitals, except for public hospitals and certain exempt hospitals. The Medi-Cal Hospital Provider Rate Stabilization Act and the Quality Assurance Fee Act governs supplemental payments made to

providers from the fund established to accumulate the QAFs and matching federal funds. The QAF 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 reimbursement than the QAFs paid, while other California hospitals receive less money in Medi-Cal payments than the fees paid. 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 the Corporation, 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 2023-24 budget took effect July 1, 2023 and provides $38.3 billion from the General Fund for Medi-Cal, an approximately 20% increase from the 2022-23 budget. The budget renewed the Managed Care Organization Tax that is expected to generate $19.4 billion in State revenue from 2023 through 2027. It also provides for $2.7 billion of Medicaid reimbursement rate increases and other investments annually beginning in 2025 through 2029. However, 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 the Corporation.

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, contract interpretation and contract extension issues. Such disputes may result in mediation, arbitration or litigation, as well as termination by the provider.

There is no assurance that the Corporation 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 the Corporation 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 the Corporation.

For information concerning the managed care payments received by the Corporation for the fiscal years ended August 31, 2020, 2021 and 2022, 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, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. 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 the Corporation. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance 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 the Corporation is not the direct recipient of such awards (instead, Stanford University School of Medicine is the recipient of research awards), the Corporation receives payments for health care items and services under many of these grants as a subcontractor. As such, the Corporation 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 the Corporation to sanctions as well as repayment obligations.

Regulatory Environment

"Fraud" and "False Claims." Health care "fraud and abuse" laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and others can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or 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 the Corporation.

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. In December 2022, CMS proposed to change the standard for identification and instead would require the report and return of an overpayment if a provider or supplier has actual knowledge of the existence of an overpayment or acts in reckless disregard or deliberate ignorance of an overpayment. Whether CMS will ultimately implement the December 2022 revisions to the rule as proposed cannot be predicted, nor can any potential impact on the Corporation.

Anti-Kickback Law. The federal "Anti-Kickback Law" is a statute with both criminal and civil liability 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. The Corporation 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. The Corporation 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 as the industry adapts to accountability for the cost and quality of care, 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.

The health care industry is expected to experience increased pressure from the Federal Trade Commission ("FTC") after President Biden signed an executive order on July 9, 2021 aimed at encouraging economic competition. The executive order highlights hospital consolidation as a cause contributing to inadequate and more expensive health care in the United States and encourages the Attorney General and the FTC Chair to review and consider revising the current horizontal and vertical merger guidelines to address industry consolidation. Such increased focused of the Biden administration could result in heightened scrutiny of future transactions of the Corporation and could have a materially adverse effect on the financial condition or operations of the Corporation.

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 the Corporation 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 the Corporation.

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 the Corporation.

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's Confidentiality of Medical Information Act ("CMIA") requires health care providers and others to keep medical information private and secure and, subject to certain exceptions, prohibits disclosure of such medical information without a patient's consent. Violations of the CMIA may result in significant fines and penalties.

Existing or future state consumer protection and privacy laws including the California Consumer Privacy Act (as amended by the California Privacy Rights Act, the "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 termination of its Medicare provider agreement. Over the last few years, the federal government has increased its enforcement of EMTALA.

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 the Corporation 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 FTC 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. For instance, on February 3, 2023, DOJ withdrew its October 2011 guidance on antitrust enforcement, stating that it was overly permissive on certain subjects, including information sharing. Although the regulations provide 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. Effective January 1, 2018, CMS imposed large cuts on such discounts in the 340B Program. These cuts were challenged by the American Hospital Association, and, in June 2022, the U.S. Supreme Court ruled that CMS's policy was unlawful. As a result of the Supreme Court's decision, CMS finalized for calendar year 2023 a payment rate of average sales price plus 6% for 340B Program drugs, consistent with CMS policy for drugs not acquired through the 340B Program. CMS further implemented a 3.09% reduction to payment rates for non-drug services to achieve budget neutrality for the 340B Program payment rate change for calendar year 2023. CMS has proposed an additional one-time lump sum payment for calendar years 2018-2022 for the approximately 1,600 affected hospitals. To meet the statutory requirement of budget neutrality, CMS also proposes to reduce future non-drug item and service payments by adjusting the OPPS conversion factor by a negative 0.5 percent beginning in 2025, estimating that it will take 16 years to accomplish the offset. Whether CMS will ultimately implement these proposed revisions cannot be predicted, nor can any potential impact on the Corporation.

Additionally, Congressional and administrative efforts have also been made in the past, seeking to tighten 340B Program eligibility requirements and reduce the scope of the program. Future legal, legislative or administrative changes to the 340B Program which result in a loss of 340B Program eligibility, or further decreases in 340B Program drug discounts, could have a material adverse effect on the Corporation. In addition, the rules and regulations applicable to participation in the 340B Program are technical, complex, numerous and may not fully be understood or implemented by billing or reporting personnel. Failure to comply with the 340B Program requirements or rules could result in exclusion from the 340B Program thus significantly increasing costs for drugs as well as creating a repayment obligation, which in either case could have a material adverse effect on the operations or financial condition of the Corporation.

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 the Corporation.

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

Physician, Nursing and Staff Shortages. In recent years, the health care industry has suffered from a scarcity of physician specialists and sub specialists, nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A current and significant nationwide nursing shortage is particularly affecting the health care sector and various studies have predicted that physician and nurse shortages will become more acute over time as practitioners retire and patient volumes exceed the growth in new practitioners. The COVID-19 pandemic has contributed significantly to these trends, with practitioners, nursing staff and other personnel experiencing burnout and deciding to leave medicine, retire early, or take advantage of substantially increased wages being offered for contract labor. Many employers in a variety of sectors continue to struggle to fill available positions. These factors are expected to continue in the future, aggravating the general shortage and increasing the likelihood of hospital specific shortages. To the extent the Corporation is unable to maintain adequate staffing levels, utilization and, thus, financial performance may be adversely affected.

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, as well as significant management and personnel time to defend. A major class action decided or settled adversely to the Corporation 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 the Corporation. To the extent that more health care workers will need to be classified as employees, the legislation may have a material adverse impact on the Corporation.

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 the Corporation 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 the Corporation 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 the Corporation.

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. The Corporation has taken, and continues to take measures to protect its information technology system against such cyberattacks, but there can be no assurance that the Corporation 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 the Corporation. Although cybersecurity insurance covering losses relating to a breach has been available, such insurance is becoming increasingly more difficult to obtain.

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, the Corporation was less able to acquire new equipment required to remain technologically current, the operations and financial condition of the Corporation could be materially adversely affected.

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. The Corporation 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

The Corporation 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, the Corporation reviews the use, compatibility and business viability of many of the operations of the Corporation, and from time to time the Corporation may pursue changes in the use of, or disposition of, its facilities. Likewise, the Corporation 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 the Corporation in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the Corporation. Discussion with respect to affiliation, merger, acquisition, disposition or change of use of facilities, including those which may affect the Corporation, 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 the Corporation 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 the Corporation may change from time to time. See also "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—The Master Indenture—Replacement of Obligation No. 46" herein and "—Other Risks Factors—Replacement of Master Indenture; Change in Obligated Group Composition" below.

In addition to relationships with other hospitals and physicians, the Corporation 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 the Corporation. In addition, the Corporation 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 the Corporation. Any initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the Corporation 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 the Corporation.

Tax-Exempt Status and Other Tax Matters

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

The 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 the Corporation, 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.

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

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 the Corporation 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 the Corporation potentially could result in loss of tax exemption of the Bonds and of other tax-exempt debt of the Corporation or any future Member of the Obligated Group, and defaults in covenants regarding the Bonds and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation or any future Member of the Obligated Group. For these reasons, loss of tax-exempt status of the Corporation 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 the 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"). The Corporation 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 the Corporation, as well as the exclusion from gross income for federal tax purposes of the interest payable on the Bonds and other tax-exempt debt issued for the Corporation.

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 the Corporation 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 the Corporation 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 the Corporation or future Members of the Obligated Group by requiring payment of income, local property or other taxes.

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

IRS officials have indicated that resources will be invested in audits of tax-exempt bonds, including the use of bond proceeds, in the charitable organization sector, with specific reviews of private use. In addition, under its compliance check program initiated in 2007, the IRS has from time to time sent post-issuance compliance questionnaires to several hundred nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has

particularly emphasized, (ii) qualified use of bond-financed property, (iii) compliance with arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. After analyzing responses, IRS representatives indicated that it had commenced a number of examinations of hospital tax-exempt bond issues with wide-ranging areas of inquiry. In the final report summarizing findings and conclusions of the questionnaire responses, issued July 1, 2011, the IRS stressed the importance of formal post-issuance compliance and record-keeping procedures. IRS representatives indicate that more questionnaires may be sent to additional nonprofit organizations.

Effective with the 2008 tax year, tax-exempt organizations must also complete Schedules H, K and J to Form 990, which create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K requires detailed information related to certain outstanding bond issues of tax-exempt borrowers, including information regarding operating, management and research contracts as well as private use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations' officers, directors, trustees, key employees, and other highly compensated employees.

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

In addition, current and future legislative proposals, if enacted into law, could cause interest on the Bonds to be subject to federal income taxation or state income taxation, or could otherwise affect the economic value or marketability of the Bonds. See "TAX MATTERS" herein.

The Corporation believes that the Bonds properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "TAX MATTERS." No ruling with respect to the Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an examination of the Bonds will not adversely affect the Bonds or the market value of the Bonds, nor that future legislative action might not limit or remove the tax-exempt status of interest on the Bonds. See "TAX MATTERS" herein.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code. As tax-exempt organizations, the Corporation and any future 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 the Corporation or any future Member's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Bonds and other 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 the Corporation and could result in material damage and temporary or permanent cessation of operations at the Corporation's facilities. The Corporation currently does not carry earthquake insurance coverage.

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. HCAi 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 HCAi reasonable progress towards meeting the ultimate deadlines.

Wildfires. California has faced increasingly destructive wildfires that have destroyed structures and displaced residents. Wildfires in Northern California could in the future have a material adverse effect on the Corporation, resulting in material damage to facilities and temporary or permanent cessation of operations, as well as prompting trained personnel to relocate out of the Corporation's service area, further impacting staffing shortages. Further, wildfires in Northern California could also result in an abnormally high demand for health care services or otherwise impair the Corporation's operations and the generation of revenues.

Construction Risks. As the Corporation continues to implement its Master Plan, the Corporation 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; Change in Obligated Group Composition. The Corporation 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; Tenders. The Corporation has variable rate obligations outstanding, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is not unrestricted, however, because the Corporation would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents.

Approximately $84.1 million of outstanding variable rate bonds issued on behalf of the Corporation have a "put" feature which grants the holders of such bonds the right to tender these bonds for payment on seven, or fewer, days' notice. The Corporation 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. The Corporation also has approximately $157.7 million of outstanding bonds that bear interest at fixed rates for a specified period of time and are subject to mandatory tender at the end of their long-term interest rate periods. None of such bonds are supported by either a credit facility or a liquidity facility. If any such bonds are tendered for purchase, or come to the end of their respective roll periods, as applicable, and are not remarketed, the Corporation will be obligated to purchase such bonds.

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

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

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

Investments. The Corporation has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be material. For a discussion of the Corporation's investments, see APPENDIX A – "INFORMATION CONCERNING STANFORD 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 the Corporation's total receipt of charitable contributions. Failure to collect committed donations or to receive sufficient additional pledges of support may impair the Corporation's ability to complete the construction projects or to develop programs or services that are dependent on charitable contributions. No assurances can be given that the Corporation will receive charitable contributions as anticipated or consistent with historical levels.

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Corporation, or the market value of health care revenue bonds, including the 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 the Corporation, 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 the Corporation'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.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that, for tax years beginning after December 31, 2022, interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from federal corporate alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

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

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

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

In addition, Bond Counsel has relied, among other things, on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given

any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed or refinanced by the Bonds in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

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

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

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

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

Payments on the Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of Bonds may be subject to backup withholding with respect to "reportable payment," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Bonds. The payor will be required to deduct and withhold the prescribed amounts (i) the payee fails to furnish a U.S. 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) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

APPROVAL OF LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel's opinion is set forth as Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Corporation by its counsel, Ropes & Gray LLP, which undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement, for the Authority by its counsel, the Attorney General of the State of California who undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement, and for the Underwriters by Norton Rose Fulbright US LLP, which also undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

ABSENCE OF MATERIAL LITIGATION

The Corporation

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of the officers of the Corporation, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Corporation taken concerning the issuance or sale thereof or the execution and delivery of Obligation No. 46, or the pledge or application of any moneys or security provided for the payment of the Bonds.

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

The Authority

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

RATINGS

Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") have assigned long-term municipal bond ratings of "Aa3," "AA-" and "AA," respectively, to the Bonds. The ratings reflect the current assessment of each rating agency of the creditworthiness of the Corporation. Such ratings reflect only the view of each organization and any explanation of the significance of such rating may only be obtained from the rating agency furnishing the same. The Corporation has furnished to such rating agencies certain information and materials concerning the Bonds and itself. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that any of the ratings mentioned above will remain in effect for any given period of time or that the ratings might not be lowered or withdrawn entirely by the rating agency assigning any such rating, if in its judgment circumstances so warrant. Any downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

INDEPENDENT ACCOUNTANTS

The financial statements of the Corporation as of August 31, 2022 and 2021 and for the years then ended, included in APPENDIX B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

UNDERWRITING

Pursuant to a Bond Purchase Contract for the Bonds (the "Purchase Contract"), Morgan Stanley & Co. LLC, as the representative of the underwriters named on the cover of this Official Statement (collectively, the "Underwriters"), has agreed to purchase the Bonds at a purchase price of $300,004,540.25, which amount represents the par amount of the Bonds, plus original issue premium of $39,459,540.25 The Corporation has agreed to pay the Underwriters underwriting compensation of $953,395.92 with respect to the Bonds. The Purchase Contract provides that the Underwriters will purchase all of the Bonds, if any are purchased, and contains the agreements of the Corporation to indemnify the Underwriters and the Authority against certain liabilities. The Purchase Contract also provides that the Corporation will pay the fees of counsel to the Underwriters.

Morgan Stanley & Co. LLC, as an Underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its underwriting efforts with respect to the Bonds.

The Underwriters and their respective affiliates together comprise a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Such activities may involve or relate to assets, securities and/or instruments of the Corporation (whether directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with (or that are otherwise involved with transactions by) the Corporation. The Underwriters and their respective affiliates may have, from time to time, engaged, and may in the future engage, in transactions with, and performed and may in the future perform, various investment banking services for the Corporation for which they received or will receive customary fees and expenses. Under certain circumstances, the Underwriters and their respective affiliates may have certain creditor and/or other rights against the Corporation and any affiliates thereof in connection with such transactions and/or services. In addition, the Underwriters and their respective affiliates may currently have and may in the future have investment and commercial banking, trust and other relationships with parties that may relate to assets of, or be involved in the issuance of securities and/or instruments by, the Corporation and any affiliates thereof. The Underwriters and their respective affiliates also may communicate independent investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

The Corporation has retained Kaufman, Hall & Associates, LLC ("Kaufman Hall"), Skokie, Illinois, a municipal advisory firm registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board, as financial advisor in connection with the issuance of the Bonds. Although Kaufman Hall has assisted in the preparation of this Official Statement, Kaufman Hall was not and is not obligated to undertake, and has not undertaken to make, an independent verification and assumes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

RELATIONSHIPS AMONG THE PARTIES

Certain of the parties acting with respect to the offering, sale, issuance and securing of the Bonds (this "Transaction") act for parties related to the Corporation. Ropes & Gray LLP is acting as counsel to the Corporation in this Transaction. Ropes & Gray LLP also acts as outside counsel for Stanford University and Lucile Salter Packard Children's Hospital at Stanford ("LPCH"). Orrick, Herrington & Sutcliffe LLP, which is acting as bond counsel to the Authority on this transaction, also acts as bond counsel to the Authority on bond issues for the benefit of LPCH and Stanford University. PricewaterhouseCoopers LLP, which is acting as the independent auditors of the financial statements of the Corporation, also acts as the independent auditors of the financial statements of Stanford University and LPCH. Morgan Stanley & 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 the Corporation with respect to the establishment of the CP Program, if established. RBC Capital Markets, LLC also will act as dealer with respect to the CP Program, if established.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Indenture, the Loan Agreement, the Master Indenture, Supplement No. 46 and the Continuing Disclosure Agreement, and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of such documents may be obtained during the offering period upon request directed to the Corporation and thereafter upon request directed to the principal corporate trust office of the Trustee.

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

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

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

By: /s/ Bianca Smith
Deputy Executive Director

APPROVED:

STANFORD HEALTH CARE, a California nonprofit public benefit corporation

By: /s/ Linda Hoff
Chief Financial Officer

APPENDIX A

INFORMATION CONCERNING STANFORD HEALTH CARE

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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 604-bed tertiary, quaternary and specialty hospital facility (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"). During the fiscal year ended August 31, 2022, SHC treated 97,805 patients in its emergency department, admitted 31,395 inpatients and recorded 1,383,054 outpatient visits, including telehealth visits. From these patient care activities, the Corporation reported, on a consolidated basis, total operating revenues and other support of $7.4 billion and income from operations of $518 million for the fiscal year ended August 31, 2022. As of August 31, 2022, the Corporation's consolidated total assets were $10.5 billion, consolidated total liabilities were $4.4 billion and consolidated net assets were $6.1 billion.

The Corporation is solely responsible for the payment of principal, Redemption Price and Purchase Price of and interest on the California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A (the "Bonds"), as described in the forepart of this Official Statement. 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 debt of each of the Corporation, Stanford University and LPCH receives separate credit ratings from rating agencies.

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

Corporate Organization and Related Entities

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

Set forth below is a listing of other entities to which the Corporation is related or in which it has interests, and a brief description of the nature of those relationships or interests. For additional information, including which of such entities are included in the Corporation's audited consolidated financial statements and how such entities contribute to the Corporation's consolidated financial results, see Note 1 and Note 2 of such financial statements included as Appendix B to this Official Statement, 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 SMP" herein.

University HealthCare Alliance dba Stanford Medicine Partners ("SMP"). SMP 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, on behalf of the School of Medicine, are the corporate members of SMP. SMP has operated as "Stanford Medicine Partners" since July 2022, as part of a rebranding initiative. Previously, SMP operated under its legal name, "University HealthCare

Alliance." For further information about SMP, see "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and SMP" and "—Community Physician Network" herein.

Stanford Health Care Tri-Valley ("SHC Tri-Valley"). Formerly known as The Hospital Committee for the Livermore-Pleasanton Areas, SHC Tri-Valley, 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 Tri-Valley campus in Pleasanton, California is licensed for 167 general acute care beds (1 bed is currently in suspension), and the SHC Tri-Valley 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 Livermore campus). SHC Tri-Valley provides health care services to the Tri-Valley region east of San Francisco, including the communities of Livermore, Pleasanton, Dublin and San Ramon. As part of a rebranding initiative, SHC Tri-Valley changed its legal name from "The Hospital Committee for the Livermore-Pleasanton Areas" to "Stanford Health Care Tri-Valley" in July 2022 and began operating under its legal name. The Corporation is the sole member of SHC Tri-Valley. 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 dba The Risk Authority ("TRA") (described below).

SUMIT Insurance Company Ltd. 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.

Stanford University Medical Network Risk Authority, LLC dba The Risk Authority. TRA provides risk management services to SHI, the owners of SHI and other affiliated and unaffiliated parties, and serves as attorney-in-fact to Professional Exchange Assurance Company ("PEAC") (described below). The Corporation holds an 82% share of the net assets of TRA. The remaining 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2022, set forth in the audited consolidated financial statements of the Corporation included as Appendix B to this Official Statement.

Professional Exchange Assurance Company. PEAC, a reciprocal risk retention group domiciled in Hawaii, provides insurance coverage to SMP 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 SMP 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 as of August 31, 2022 are 60% and 40%, respectively.

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 Tri-Valley 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.

Oncology Solutions Venture, LLC ("OSV"). OSV, a California limited liability company, was formed to expand access to coordinated, state-of-the-art cancer care services for patients and their families in the East Bay region. The Corporation and Sutter Bay Hospitals ("Sutter") are the only members of OSV, with the Corporation retaining a 60% interest and Sutter retaining a 40% interest.

Eden Radiation Therapy Services, LLC ("ERTS"). ERTS, a California limited liability company, was formed to provide a stable, high-quality academically integrated radiation oncology service to patients residing in the Eden area of Alameda County, to complement the Corporation's broader cancer network and the Stanford Medicine | Sutter Health Cancer Collaborative (a collaborative cancer program between the Corporation and Sutter). The Corporation and Sutter are the only members of ERTS, with the Corporation retaining a 60% interest and Sutter retaining a 40% interest.

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% as of August 31, 2022.

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 Tri-Valley holds a 39% membership interest in PPA II as of August 31, 2022.

East Bay Real Estate Ventures ("EBREV"). EBREV, a California limited liability company, was formed to develop, construct, and manage a medical office and outpatient services facility on the Alta Bates Summit Medical Center campus in Oakland, California. The Corporation and Sutter are the only members of EBREV, with each retaining a 50% interest.

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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 eighteen 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
Sara Abbasi	2021	Philanthropist
Susan Bechtel	2015	President of a nonprofit foundation
Jeffrey Bird, M.D.	2022	Managing Director of a venture capital fund
William Brody, M.D.	2015	Professor Emeritus
Mariann Byerwalter	2015	Chairman of an advisory group
Jonathan Coslet, *ex officio*	2022	Chief Investment Officer at a private equity firm
David Entwistle, *ex officio*	2016	President and CEO, SHC
Kaye Foster	2014	Independent leadership advisor & executive coach
Cecilia Herbert	2016	Trustee of an investment firm
Marc E. Jones, Chair	2020	Chairman and CEO of a communications firm
Karen Jordan	2023	Non-profit board member
Paul A. King, *ex officio*	2019	President and CEO, LPCH
Lata Krishnan	2018	Technology entrepreneur and philanthropist
Mark Leslie	2015	Retired entrepreneur
Randy Livingston, *ex officio*	2017	Stanford Medicine Liaison, Chief Financial Officer, Stanford University
Lloyd Minor, M.D., *ex officio*	2012	Dean, Stanford School of Medicine
Hamid Moghadam	2021	Chairman & CEO of a logistics real estate company
Thomas Montine, M.D.	2022	Chair, Department of Pathology, School of Medicine
Mindy B. Rogers, Vice Chair	2018	Community volunteer
Jeff Rothschild	2021	Investor and entrepreneur
Robert Santos, M.D.	2021	Community physician; Internal Medicine, University Medical Partners, SHC
Jay Shah, M.D., *ex officio*	2022	Associate Professor of Urology and Chief of Staff, SHC
Kavitark Ram Shriram	2019	Founder of a venture capital firm
Eila Skinner, M.D.	2023	Thomas A. Stanley Research Professor & Chair of Urology, SHC

Board Committees. The bylaws of the Corporation require an Audit Committee, a Quality Committee and a Finance 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 additional 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.

Michael Pfeffer, Chief Information Officer and Associate Dean for Stanford Health Care and Stanford University School of Medicine. Dr. Pfeffer joined the Corporation in August 2021. Prior to his appointment, Dr. Pfeffer served as Assistant Vice Chancellor and Chief Information Officer at UCLA Health Sciences. Previously, Dr. Pfeffer was named UCLA Health's inaugural Chief Medical Informatics Officer. Dr. Pfeffer has lectured worldwide on health information technology ("IT"), served on the national HIMSS Physician Committee and as a HIMSS Stage 7 international site surveyor, and has published numerous peer-reviewed articles on health IT. Dr. Pfeffer earned his undergraduate degree in Chemical Engineering from Brown University and his medical degree from Cornell University.

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. Sehgal'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. Sehgal 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 2023, *U.S. News and World Report* ranked the Corporation first in the San Jose Metro Area and first in California. 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 and cellular therapy programs, specializing in the treatment of hematologic malignancies and solid tumors, is a significant part of the cancer treatment program. Many cancer treatments, particularly chemotherapy and immunotherapy, 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 by the Corporation and is further described below under "Neurosciences." The cancer clinical trials office oversees more than 250 active cancer-related clinical trials providing patients access to novel treatments. The Corporation also provides outpatient cancer care at nine sites across Santa Clara, San Mateo, and San Francisco counties and the East Bay region, permitting expanded patient access to the latest advances in cancer care, including access to clinical trials, and multi-modality treatments in the communities served.

Solid Organ Transplantation. Services provided include kidney, simultaneous kidney/pancreas, pancreas, liver and intestinal transplantation and multi-visceral and multi-organ transplantation. Such surgical transplantation services are in addition to heart, heart/lung, lung transplant services, and mechanical support for heart transplantation or long-term treatment for heart failure, all as described above under "Cardiovascular Health." All transplant programs utilize multi-disciplinary teams comprised of experts in transplant surgery, medicine, immunology, psychiatry, infectious diseases, and others. Patients benefit from research protocols and receive care and education from specialty-trained clinical nurses, advanced practice providers, transplant coordinators, social workers, pharmacists, dieticians, 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, 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 a new Hospital facility (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 in November 2019. 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 $2.8 billion through fiscal year 2027, which is expected to be funded through a combination of cash from operations, philanthropy, and borrowing. On-campus projects include a renovation and remodel of the Corporation's original hospital facility, as described below (the "300P Renewal Program"), and a relocation of certain clinical services from Stanford University's campus to buildings in Redwood City that the Corporation 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.

The 300P Renewal Program, which launched in October 2020 and is expected to be completed by the end of 2029, is a $1.6 billion complete rebuild of the Corporation's original hospital facility, constructed in 1959 and located at 300 Pasteur Drive in Palo Alto. The project includes a complete modernization of various patient care units, the interventional platform (a collection of operating rooms, hybrid operating rooms, and imaging facilities), pediatric emergency department, morgue and autopsy facilities, and public spaces. Progress on the 300P Renewal Program thus far includes (1) a completed conversion of a large portion of the adult emergency department to pediatric emergency services, which opened to patients in May 2022, (2) completed modernization of one patient care unit, including conversion to private patients rooms, enlargement of bathrooms, and provision of accommodations for families, which reopened to inpatients in July 2022, (3) commencement of renovations in the interventional platform and expansion of the post-anesthesia care unit, and (4) commencement of significant upgrades to various public spaces. In the next several years, additional renovations are planned for the additional patient care units, as well as the construction of 57 beds in extension towers. At the completion of the 300P Renewal Program, the licensed bed capacity at the original hospital facility is expected to be 232 beds. Paired with the 368-bed licensed bed capacity of the New Stanford Hospital, total Hospital licensed bed capacity is expected to equal 600 beds. Such inpatient capacity is consistent with SHC's development agreement with the City of Palo Alto. As of May 31, 2023, approximately $382 million, which was primarily for design and construction, was recorded to construction in progress for 300P Renewal Program. The Corporation expects to reimburse a portion of such expenses with the proceeds of the Bonds.

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 Department of Health Care Access

and Information ("HCAi"). The State seismic safety requirements address both structural frame and non-structural performance. 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 HCAi sign off. The formal reclassification to re-designate these buildings to non-hospital status was granted in May 2022. HCAi has classified a substantial portion of the Hospital as compliant with the Seismic Safety Act until 2030 and beyond. Following completion of the 300P Renewal Program, expected in 2028, all of the Hospital's inpatient beds will be located in structures compliant with the Seismic Safety Act until 2030 and beyond.

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. The School of Medicine faculty consistently achieves higher levels of annual funding per principal investigator than those at peer institutions, and the school was ranked second in total National Institutes of Health ("NIH") funding to schools of medicine in 2022. 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 Dean of the School of Medicine, the President and Chief Executive Officer of the Corporation, and the President and Chief Executive Officer of LPCH. 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 and LPCH.
- Joint planning involving the School of Medicine, other components of Stanford University and the Corporation to integrate the clinical services, business needs and IT priorities. To that end, the Corporation and the School of Medicine have recently integrated their IT, communications, and strategy organizations.
- Joint effort between the School of Medicine, the Corporation, and LPCH to accelerate early-stage innovations in digital health, medical technology, diagnostics, and therapeutics.
- 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 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 Wu Tsai Neurosciences Institute, and the Stanford Institute for Immunity, Transplantation and Infection.

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

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 Official Statement, and were approximately $1.1 billion for the year ended August 31, 2022.

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 infrastructure, 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, 2022 was $164 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, security and IT. 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 $97 million for the fiscal year ended August 31, 2022 and is reflected in the consolidated statements of operations and changes in net assets.

The Corporation received certain grant monies for clinical trials from Stanford University that totaled $8 million for the fiscal year ended August 31, 2022 and are reflected in the consolidated statements of operations and changes in net assets as net patient service revenue. For the fiscal year ended August 31, 2022, the Corporation transferred $112 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.

The Corporation also received equity transfers of $3 million during the fiscal year ended August 31, 2022, which represented restricted gifts originally donated to Stanford University. These gifts were subsequently re-designated for use by the Corporation (largely in connection with the provision of patient care services and for 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, set forth in the audited consolidated financial statements included as Appendix B to this Official Statement.

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

$42 million for the fiscal year ended August 31, 2022 and is reflected in the consolidated statements of operations and changes in net assets.

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 $44 million for the year ended August 31, 2022 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, building maintenance, IT and utilities. Reimbursement of these services totaled $47 million for the year ended August 31, 2022 and is reflected in the consolidated statements of operations and changes in net assets.

Transactions with SMP. The Corporation sponsors SMP's operating divisions comprised of multi-specialty clinics operated by SMP in 60 locations in San Mateo, Santa Clara, Contra Costa, and Alameda counties, and in connection with such sponsorship, the Corporation funds SMP's general overhead costs and supplements such operating divisions' revenues, as necessary, to fund applicable operating and capital costs. The sponsorship continues from year to year at the Corporation's discretion. In fiscal year 2022, the Corporation provided $86 million to SMP 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 Official Statement.

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 May 31, 2023

	Number of Beds	
Service	Licensed	Operational
General Acute Care	453	539[(1)]
Intensive Care	121	119
Psychiatric	30	30
Totals	604[(2)]	688

(1) The Corporation has program flexibilities in place with the California Department of Public Health ("CDPH") that permit it to operate additional General Acute Care beds beyond those on its license in response to community demand.
(2) The 300P Renewal Program is expected to reduce total licensed bed capacity to 600, see "SERVICES, FACILITIES, OPERATIONS—Master Plan and Additional Capital Needs."
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 Market

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.

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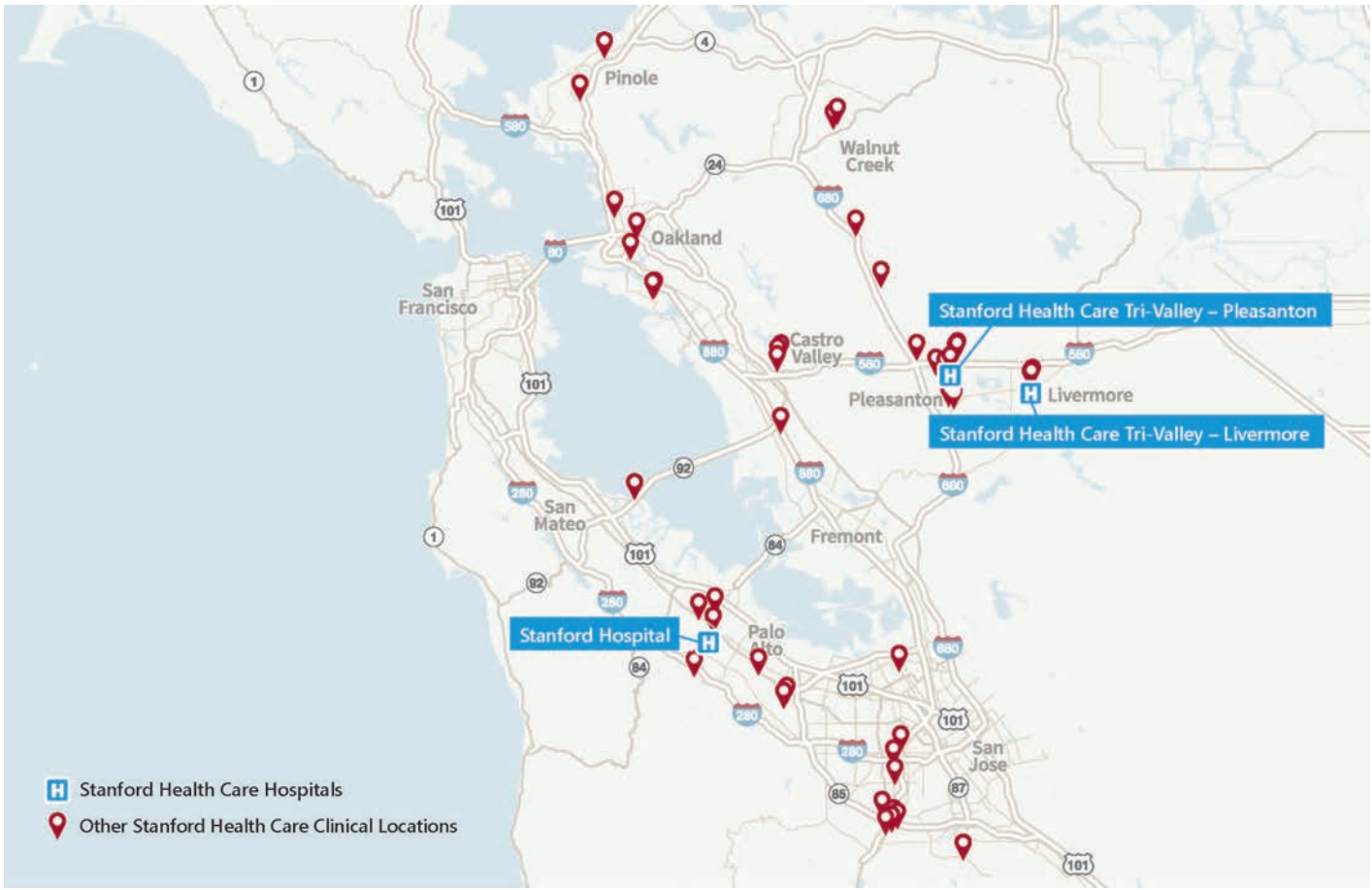
Service Area Map

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 the Corporation and its affiliates, as well as other clinical locations associated with the Corporation.



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 median age and median household income.

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

	Fiscal Year ended August 31, 2022		Calendar Year				
Local and Regional Markets	**Percentage of Outpatient Volume**	**Percentage of Charges**	**Actual Population 2022**	**Projected Population 2027**	**Projected Percentage Population Change 2022 - 2027**	**Median Age 2022**	**Median Household Income 2022**
Local Market	63.2%	60.6%	2,765,533	2,853,237	3.2%	37.9	$134,794
Regional Market:							
East Bay	15.9%	12.2%	3,306,728	3,435,170	3.9%	38.4	$106,157
Central Coast	6.1%	8.5%	1,064,716	1,087,760	2.2%	36.8	$ 86,445
Central Valley	5.9%	8.5%	5,043,643	5,279,364	4.7%	33.7	$ 69,071
North Bay	2.7%	2.8%	1,797,615	1,837,104	2.2%	41.3	$112,480
Outside Local and Regional Markets	6.2%	7.3%	–	–	–	–	–
Totals	100.0%	100.0%					

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

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The following table provides the discharge data for calendar years 2019, 2020 and 2021 (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 2020 and 2021 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 2019		Calendar Year 2020		Calendar Year 2021			
	Discharges	% of total	Discharges	% of total	Discharges	% of total	FY2020 Case Mix Index	FY2021 Case Mix Index
The Hospital	12,614	6.4%	13,639	7.7%	15,370	8.4%	2.60	2.79
California Pacific Medical Center ("CPMC") - Pacific Campus[1]	279	0.1%	0	0.0%	0	0.0%	n/a	n/a
CPMC – Van Ness Campus[1]	1,393	0.7%	1,645	0.9%	1,728	0.9%	1.68	1.74
CPMC – Mission Bernal[1]	861	0.4%	284	0.2%	238	0.1%	1.51	1.64
CPMC – Davies Campus[1]	367	0.2%	270	0.2%	261	0.1%	1.84	1.81
El Camino Hospital	21,936	11.2%	19,812	11.2%	22,098	12.0%	1.37	1.41
Good Samaritan Hospital - San Jose	18,149	9.2%	15,461	8.7%	14,368	7.8%	1.48	1.55
Kaiser Permanente - Redwood City	7,990	4.1%	7,217	4.1%	7,323	4.0%	1.52	1.58
Kaiser Permanente - San Jose	12,651	6.4%	11,319	6.4%	11,450	6.2%	1.40	1.47
Kaiser Permanente - Santa Clara	19,761	10.1%	18,126	10.2%	18,373	10.0%	1.55	1.67
Kaiser Permanente - South SF	3,791	1.9%	3,551	2.0%	3,921	2.1%	1.59	1.62
Mills-Peninsula Medical Center	12,479	6.3%	11,321	6.4%	11,363	6.2%	1.60	1.68
O'Connor Hospital	7,644	3.9%	8,328	4.7%	9,512	5.2%	1.49	1.51
Regional Medical Center of San Jose	13,956	7.1%	10,024	5.7%	9,973	5.4%	1.78	1.91
San Mateo Medical Center	2,232	1.1%	1,909	1.1%	1,928	1.0%	1.40	1.48
Santa Clara Valley Medical Center	21,352	10.9%	18,856	10.6%	19,572	10.7%	1.44	1.51
Sequoia Hospital	5,746	2.9%	4,730	2.7%	4,388	2.4%	1.60	1.64
Seton Medical Center	3,850	2.0%	2,803	1.6%	2,751	1.5%	1.80	1.87
UCSF Medical Center[1]	3,031	1.5%	2,865	1.6%	2,889	1.6%	2.28	2.44
All Other Hospitals[2]	26,459	13.5%	25,130	14.2%	26,194	14.3%	n/a	n/a
Total Discharges	196,541	100%	177,290	100%	183,700	100%	n/a	n/a

[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.
[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: HCAi; 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 Tri-Valley plays a key role in its market positioning. The affiliation with SHC Tri-Valley, 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, physiatry and treatment of hand and upper extremities, foot and ankle, spine, trauma, and tumor.
- 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 SMP 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. SMP's community-based clinic network began in 2011 with two clinics in Menlo Park, California, and, as of August 2022, consisted of over 60 clinic sites located in San Mateo, Santa Clara, Contra Costa and Alameda counties. Clinic services are provided through long-term professional services agreements between SMP and community-based physicians, who are affiliated with SMP through operating divisions associated with the physicians' medical groups. In the fiscal year ended August 31, 2022, SMP recorded 846,889 outpatient visits. The Corporation provides financial support for the operating divisions of SMP. See "SERVICES, FACILITIES AND OPERATIONS—Operational Relationships Among the Corporation, Stanford University, LPCH and SMP" above. The Corporation may provide additional financial support to SMP in connection with expansion of the network of community-based clinics operated by SMP.

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Utilization

A summary of historical utilization data for the Corporation for the three fiscal years ended August 31, 2020, 2021 and 2022 and for the nine-month period ended May 31, 2023 and 2022 is presented in the following table.

TABLE 4
Historical Utilization

	Fiscal Years Ended August,			For the Nine-Month Period ended May,	
	2020	2021	2022	2022	2023
Discharges					
Acute	26,224	28,661	30,684	22,683	24,659
Behavioral Health	722	607	711	527	425
Total	26,946	29,268	31,395	23,210	25,084
Patient Days					
Acute	154,344	182,735	212,210	156,446	174,321
Behavioral Health	7,870	7,632	9,571	7,265	7,468
Subtotal	162,214	190,367	221,781	163,711	181,789
Short Stay Outpatient	13,664	14,086	15,573	11,698	11,176
Total	175,878	204,453	237,354	175,409	192,965
Average Daily Census					
Acute	421.7	500.6	581.4	573.1	638.5
Behavioral Health	21.5	20.9	26.2	26.6	27.4
Total	443.2	521.5	607.6	599.7	665.9
Average Length of Stay					
Acute	5.9	6.4	6.9	6.9	7.1
Behavioral Health	10.9	12.6	13.5	13.8	17.6
Average	6.02	6.50	7.06	7.05	7.25
Case Mix Index	2.51	2.77	2.71	2.71	2.71
Emergency Room Visits[(1)]	76,688	88,848	97,805	72,202	80,754
Short Stay Outpatient Procedures	41,914	47,816	50,298	37,334	41,148
Other Outpatient Visits[(2)]	893,386	1,504,343	1,383,054	1,063,804	902,002
Surgeries					
Inpatient	12,210	12,750	12,972	9,434	9,730
Outpatient[(2)]	22,933	26,487	29,331	21,548	23,214
Totals	35,143	39,237	42,303	30,982	32,944

(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, 2020, 2021 and 2022 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, 2021 and 2022, included as Appendix B to this Official Statement.

The information for the nine-month periods ended May 31, 2023 and May 31, 2022 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 nine-month period ended May 31, 2023 are not necessarily indicative of the results of operations to be expected for the entire fiscal year ended August 31, 2023.

The results of all of the Corporation's related entities, consisting of SMP, SHC Tri-Valley, SBC, SHI, SEROC, CareCounsel, PEAC, and ERTS (collectively, the "Related Entities") are consolidated with those of the Corporation for all periods. Earnings from PET-CT and EBREV are included in other revenue in the consolidated statements of operations and changes in net assets. 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.

Management calculates the Related Entities' contribution to the Corporation's total consolidated operating revenues as 13.1% for the fiscal year ended August 31, 2022, 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 8.5%, 7.6% and (14.0%), respectively. 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 Official Statement.)

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

	Fiscal Years Ended August 31,			For the Nine Months Ended	
	2020	2021	2022	May 31, 2022	May 31, 2023
Operating revenues and other support:					
Net patient service revenue[1]	$ 5,140,938	$ 6,052,048	$ 6,922,468	$ 5,139,049	$ 5,636,584
Premium revenue	116,971	118,741	75,310	54,576	47,932
Grants – COVID-19	124,551	406,265	203,265	203,252	2
FEMA	-	4,202	12,051	12,051	-
Other revenue	174,293	179,462	192,353	127,954	157,102
Net assets released from restrictions used for operations	10,823	11,490	7,020	4,710	6,953
Total operating revenues and other support	5,567,576	6,772,208	7,412,467	5,541,592	5,848,573
Operating expenses:					
Salaries and benefits	2,548,259	2,813,222	3,344,920	2,430,110	2,645,930
Professional services	38,463	49,496	75,439	36,883	37,800
Supplies	820,403	968,544	1,009,604	749,681	861,282
Purchased services	1,458,959	1,513,638	1,598,840	1,194,240	1,282,445
Depreciation and amortization	257,725	289,263	270,346	203,320	195,125
Interest	68,019	76,903	71,940	53,741	55,715
Other	460,483	448,357	522,697	397,771	418,726
Expense recoveries from related parties	(105,779)	(50,559)	588	(776)	(322)
Total operating expenses	5,546,532	6,108,864	6,894,374	5,064,970	5,496,701
Income from operations	**21,044**	**663,344**	**518,093**	**476,622**	**351,872**
Interest and investment income	43,973	47,822	99,924	95,806	37,092
Earnings on equity method investments	19,592	41,596	36,188	37,916	13,526
Change in value of University managed pools	161,720	784,864	(375,746)	(284,343)	75,634
Swap interest and change in value of swap agreements	(53,722)	46,274	120,324	110,261	33,599
Loss on extinguishment of debt	-	(2,558)	-	-	-
Other components of net periodic benefit costs	(2,070)	(1,960)	(3,243)	(2,432)	(4,477)
Excess of revenues over expenses	**190,537**	**1,579,382**	**395,540**	**433,830**	**507,246**
Other changes in net assets without donor restrictions:[2]					
Transfers to Stanford University	(98,367)	(100,386)	(112,361)	(30,268)	(41,604)
Transfers from Lucile Salter Packard Children's Hospital	-	99	-	-	1,783
Change in net unrealized gains on investments	(1,249)	(2,406)	(24,894)	(17,584)	7,325
Net assets released from restrictions used for:					
Purchase of property and equipment	3,248	1,016	2,209	2,035	839
Purchase of property and equipment – New Stanford Hospital	555,219	18,224	9,550	7,221	1,078
Change in pension and postretirement liability	1,042	9,396	1,694	-	-
Noncontrolling capital contribution (distribution)	(2,400)	(1,870)	7,864	7,864	(929)
Loss from discontinued operations	-	(4,202)	-	-	-
Increase in net assets without donor restrictions	648,030	1,499,253	279,602	403,098	475,738
Changes in net assets with donor restrictions:[2]					
Transfer from (to) Stanford University	162	1,353	3,128	1,619	(55)
Contributions and other	22,084	34,860	9,178	6,153	(3,360)
Investment income	929	880	1,037	754	1,038
Gains (losses) on University managed pools	2,885	11,427	(799)	(1,208)	(49)
Net assets released from restrictions used for:					
Operations	(10,823)	(11,490)	(7,020)	(4,710)	(6,953)
Purchase of property and equipment	(3,248)	(1,016)	(2,209)	(2,035)	(839)
Purchase of property and equipment – New Stanford Hospital	(555,219)	(18,224)	(9,550)	(7,221)	(1,078)
Increase (decrease) in net assets with donor restrictions	(543,230)	17,790	(6,235)	(6,648)	(11,296)
Increase in net assets	**104,800**	**1,517,043**	**273,367**	**396,450**	**464,442**
Net assets, beginning of year	4,222,648	4,327,448	5,844,491	5,844,491	6,117,858
Net assets, end of year	**$ 4,327,448**	**$ 5,844,491**	**$ 6,117,858**	**$ 6,240,941**	**$ 6,582,300**

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 Official Statement.

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update 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 was adopted, and is effective for SHC during, the fiscal year ended August 31, 2022. See the notes to the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement for applicable disclosures.

Recent Initiatives and Programs. SHC and Sutter 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 2026 and will include imaging, lab, infusion and radiation therapy services, and will house physician offices and an ambulatory surgery center. Each of the Corporation and Sutter have, as of May 31, 2023, contributed $26 million to the construction of the new cancer center. See "SERVICES, FACILITIES AND OPERATIONS—Master Plan and Additional Capital Needs" herein.

Financial Performance Comparison for the Nine-Month Periods Ended May 31, 2023 and May 31, 2022. Amounts reimbursed by COVID-19 related federal funding in the nine-month period ended May 31, 2023 and the nine-month period ended May 31, 2022 were $2 thousand and $215 million, respectively. Income generated from operations before depreciation and interest expense was $603 million for the nine-month period ended May 31, 2023, as compared to $734 million for the nine-month period ended May 31, 2022. The Corporation reported income from operations before investment income of $352 million for the nine-month period ended May 31, 2023, compared to $477 million for the nine-month period ended May 31, 2022. Net patient service revenue, including the payments under SMP capitated agreements with health maintenance organizations (the "Premium Revenue"), included in income from operations increased by 9.5%, period over period, or $491 million, while total operating expenses increased by 8.5%, or $432

million, period over period. A portion of the revenues and expenses is related to the Hospital Fee Program (as defined herein). Excluding revenues and expenses related to this program, net patient service revenue increased 7.7%, or $397 million, while total operating expenses increased by 7.6%, or $384 million, period over period.

Net patient service revenue increased mainly due to higher volume. The related increase in operating expenses is primarily due to increased salaries to remain competitive in the health care market, payments to the School of Medicine under the PSA, and supplies expense, which is in response to patient volume growth and inflation. 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 $113 million for the period ended May 31, 2023 compared to a loss of $189 million for the period ended May 31, 2022. The fair value of the interest rate swaps increased by $34 million compared to an increase of $110 million for the periods ended May 31, 2023 and 2022, respectively. As a result, the Corporation's excess of revenues over expenses for the nine months ended May 31, 2023 was $507 million, an increase of $73 million over the comparable period in the preceding year. In addition, the Corporation's net assets increased by $464 million and $396 million for the periods ended May 31, 2023 and 2022, respectively.

Three Year Historical Performance Overview. For the three years ended August 31, 2022, 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 and related costs due to the COVID-19 pandemic, of which some were partially offset by funds received from the federal government, improved financial market conditions contributed to the Corporation's strengthened financial position. Amounts reimbursed by COVID-19-related federal funding in fiscal years 2020 through fiscal year 2022 were $750 million. Cumulative operating revenues for the three years ended August 31, 2022 were $19.8 billion, of which net patient service revenue accounted for 92%. Cumulative income from operations for the three years ended August 31, 2022 was $1.2 billion. 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, 2022 was $763 million. Cumulative increase in net assets for the three years ended August 31, 2022 was $1.9 billion, of which $750 million was from funds from the federal government. Cumulative capital expenditures for the three years ended August 31, 2022 were approximately $939 million.

Financial Performance in Fiscal Year 2022 Compared to Fiscal Year 2021. Amounts reimbursed by COVID-19-related federal funding in fiscal year 2022 and fiscal year 2021 were $215 million and $410 million, respectively. The Corporation's net assets increased by $273 million, from $5.8 billion as of August 31, 2021, to $6.1 billion as of August 31, 2022. In fiscal year 2022, the Corporation generated a $396 million excess of revenues over expenses compared to $1.6 billion in fiscal year 2021. Interest and investment income and change in value of SHC's share of Managed Investment Pools decreased by $1.1 billion in fiscal year 2022, and the Corporation had a loss of $276 million due to negative returns on these investments.

Net patient service revenue, including Premium Revenue, increased by 13.4%, from $6.2 billion in fiscal year 2021, to $7.0 billion in fiscal year 2022. Of the $7.0 billion, inpatient revenues

represented 40.2%, an increase of 18.7% on inpatient revenues as compared to fiscal year 2021. Outpatient revenues increased by 10.1%, accounting for the remaining 59.8% of the $7 billion. Operating expenses increased 12.9% in fiscal year 2022 to $6.9 billion, from $6.1 billion in fiscal year 2021. Salaries and benefits increased 18.9% to $3.3 billion due to expanded headcount to support patient volumes, annual salary increases necessary to maintain SHC's position in the competitive market for health care professionals, offset the impact of inflation, additional costs incurred during a one-week labor dispute, and higher usage and market rates for temporary staffing due to COVID-19. All other operating expenses increased by 7.7%, from $3.3 billion in fiscal year 2021, to $3.5 billion in fiscal year 2022 largely as a result of costs related to the increase in patient activity, payments to Stanford University under the PSA, and inflation increases. Excluding revenues and expenses from the Hospital Fee Program, net patient service revenue increased 13.6%, or $818 million, and expenses increased 12.7%, or $772 million, in fiscal year 2022 compared to fiscal year 2021.

Financial Performance in Fiscal Year 2021 Compared to Fiscal Year 2020. Amounts reimbursed by COVID-19-related federal funding in fiscal year 2021 and fiscal year 2020 were $410 million and $125 million, respectively. The Corporation's net assets increased by $1.5 billion, from $4.3 billion as of August 31, 2020, to $5.8 billion as of August 31, 2021. In fiscal year 2021, the Corporation generated a $1.6 billion excess of revenues over expenses compared to $191 million in fiscal year 2020. Interest and investment income and change in value of SHC's share of Managed Investment Pools increased by $627 million in fiscal year 2021 and the Corporation had a gain of $833 million due to positive returns on these investments.

Partially due to lost patient service revenue in fiscal year 2020 due to the COVID-19 pandemic, net patient service revenue, including the Premium Revenue, increased by 17.4%, from $5.3 billion in fiscal year 2020, to $6.2 billion in fiscal year 2021. Of the $6.2 billion, inpatient revenues represented 38.4% and grew by 17.6% on continuing increases in patient volume. Outpatient revenues increased by 17.2%, accounting for the remaining 61.6% of the $6.2 billion. Operating expenses increased by 10.1% in fiscal year 2021 to $6.1 billion, from $5.5 billion in fiscal year 2020. Salaries and benefits increased by 10.4% to $2.8 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 increased by 9.9%, from $3 billion in fiscal year 2020, to $3.3 billion in fiscal year 2021 largely as a result of costs related to the increase in patient activity, payments to Stanford University under the PSA, and inflation increases. Excluding revenues and expenses from the Hospital Fee Program and the New Stanford Hospital activation costs, net patient service revenue increased by 18.4%, or $932 million, and expenses increased by 12.1%, or $656 million, in fiscal year 2021 compared to fiscal year 2020.

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, 2022, the SPP had a net benefit liability recognized in the amount of $2 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 98.5% as of August 31, 2022. The funded status assumes a discount rate of 4.68%. The Corporation has adopted an amendment to terminate the SPP, effective as of March 31, 2023 whereby SPP participants will elect to receive a lump sum distribution (if eligible) or have their benefits transferred to a third-party annuity provider. This will relieve the Corporation from any further obligations under the SPP once fully settled. SPP assets were moved to 100% fixed income, split between cash and long-term debt, to minimize investment risk during the plan termination. Final true-up contributions in connection with the annuity contract purchase are expected to be made by January 31, 2024 and are not expected to exceed $10 million.

The Corporation also provides post-retirement health insurance coverage through the Postretirement Medical Benefit Plan (the "PMBP") for employees meetingspecific criteria. As of August 31, 2022, the Corporation recognized a net benefit liability of $117 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 Official Statement.

Other Accounting Matters. In 2023, the Corporation identified an incorrect classification related to long-term advances made to Stanford University; understating Due from Related Parties, Non-Current and Due to Related Parties, Current, by $149,627 and $116,283 as of August 31, 2022 and 2021, respectively and understating cash inflows from operations, net, and cash outflows from investing activities, net, by $35,456 and $32,286 for the years ended August 31, 2022 and 2021, respectively. Additionally, Note 13 of the Corporation's consolidated audited financial statements, Related Party Transactions, omitted the disclosure of the arrangements. The Corporation has evaluated the materiality of the misclassifications quantitatively and qualitatively and concluded they are not material to the Corporation's previously issued 2022 consolidated financial statements. The Corporation has elected to revise the 2022 consolidated balance sheet, statement of cash flows, and Note 13, Related Party Transactions, as part of the 2023 financial statement process to correct the misclassifications. This revision, which will also be reflected in the Corporation's column of the supplemental Consolidating Balance Sheet, has no impact on the Statement of Operations and Changes in Net Assets and no impact on previously reported net assets.

Capitalization

The table below sets forth the actual consolidated capitalization of the Corporation as of August 31, 2022, as of August 31, 2021 and as of May 31, 2023, and the consolidated capitalization of the Corporation, as of May 31, 2023, as adjusted to reflect the issuance of the Bonds. 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, 2021	As of August 31, 2022	As of May 31, 2023	
	Actual	Actual	Actual	As Adjusted
Net Long-Term Debt[(1)]	$2,318,780	$2,295,337	$2,279,884	$2,579,889
Net Assets without Donor Restrictions	5,693,158	5,972,760	6,448,498	6,448,498
Total Consolidated Capitalization (non-GAAP)	$8,011,938	$8,268,097	$8,728,382	$9,028,387
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	28.9%	27.8%	26.1%	28.6%

(1) Total Debt does not include lease liability.

Source: Corporation Records.

Cash and Investments

As of August 31, 2022, 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 primarily 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 U.S. treasuries 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 as of August 31, 2022, 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 Official Statement.

Liquidity

The following table sets forth the consolidated cash position and liquidity of the Corporation as of May 31, 2023, August 31, 2022, and August 31, 2021.

TABLE 7
Consolidated Liquidity
(Dollars in Thousands)

	As of August 31, 2021	As of August 31, 2022	As of May 31, 2023
Cash and Cash Equivalents	$ 407,044	$ 536,803	$ 462,747
Investments	2,268,041	2,066,292	2,227,076
Investments in Stanford University Managed Investment Pools[(1)]	2,528,927	2,504,088	2,517,481
Less Funds Internally Designated or Donor Restricted for Long-Term Purposes	(128,937)	(128,989)	(154,960)
Total Liquid Assets†	**$5,075,075**	**$4,978,194**	**$5,052,344**
Days Cash on Hand[†(2)]	318	274	260

(1) See Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included as Appendix B to this Official Statement 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 in the applicable period, 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.

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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, 2022 and 2021, and pro forma debt service coverage for the fiscal year ended August 31, 2022, taking into account the changes in maximum annual debt service resulting from the issuance of the Bonds, as if such issuance occurred on August 31, 2022, as described under "THE PLAN OF FINANCE" in the forepart of this Official Statement, 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,	
	2021	**2022**
Excess of revenues over expenses	$ 1,579,382	$ 395,540
Depreciation and Amortization	289,263	270,346
Interest Expense	76,903	71,940
Change in value of Stanford University Managed Pools	(784,864)	375,746
Earnings on Equity Method Investments	(41,596)	(36,188)
Interest Rate Swap Mark-to-Market Adjustments	(67,638)	(139,748)
Loss on extinguishment of debt	2,558	-
Funds Available for Debt Service†	$ 1,054,008	$ 937,636
Maximum Annual Debt Service(1)	$ 114,294	$ 137,071
Coverage of Maximum Annual Debt Service(2)	9.22	6.84
Pro Forma Maximum Annual Debt Service	$ 151,611	$ 151,611
Coverage of Pro Forma Maximum Annual Debt Service	6.95	6.18

(1) Assumes interest on all variable rate bonds, including long-term interest rate bonds following their respective put dates, is payable at 2.8% to maturity; excludes all swap cash flows; assumes balloon maturities are treated as level debt service over 30 years. Includes the Bonds at assumed market rates.

(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, 2022, the Corporation had nine floating-to-fixed rate Swaps outstanding, representing a total notional amount of $573.7 million, under which the Corporation pays a fixed rate and receives a variable rate from the swap counterparty. Previously, the variable rate received from each swap counterparty was based on the London Interbank Offered Rate ("LIBOR"), which ceased publication on June 30, 2023. On December 15, 2021, in light of LIBOR's then-impending cessation, the Corporation modified its Swaps and each variable rate is now based on the Secured Overnight Financing Rate ("SOFR"). The transition from LIBOR to SOFR has had no material impact on the Corporation. 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, 2022, the Corporation's mark-to-market liability on the Swaps totaled $145.9 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, 2022, the Corporation had no collateral posted with the two counterparties. See Note 2 and Note 9 of the audited consolidated financial statements of the Corporation included in Appendix B to this Official Statement for more information related to the Corporation's Swaps. 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 Official Statement.

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, 2020, 2021 and 2022.

TABLE 9
Net Patient Service Revenues

	Fiscal years ended August 31,		
Source	**2020**	**2021**	**2022**
Medicare	18%	17%	16%
Medi-Cal	2	2	2
Managed Care – Discounted Fee for Services	77	78	77
Self-Pay and Other	2	2	4
Related Party	1	1	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 Official Statement for a more detailed discussion of the sources of revenue for the Corporation and certain other risks associated with certain sources of revenue.

Arrangements with Contracted Payers

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 Corporation also maintains commercial agreements with many commercial payers. All such 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. The largest volume commercial payers for the Corporation in fiscal year ended August 31, 2022 were Anthem Blue Cross, Blue Shield of California, Aetna, and UnitedHealthcare. The Corporation's agreement with UnitedHealthcare will expire on September 6, 2023. The Corporation and UnitedHealthcare are negotiating potential renewal terms in good faith.

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 Official Statement. SHC recognized $98 million, $46 million, and $67 million, in net patient service revenue and $55 million, $42 million, and $55 million, in other expense related to the Hospital Fee Program for the years ended August 31, 2022, 2021, and 2020, respectively.

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

ACCREDITATION, LICENSURE, MEDICARE AND MEDI-CAL CERTIFICATION

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 July 2022. 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 October 2022. The Corporation is certified by TJC for Comprehensive Stroke Care (last survey in May 2023), Ventricular Assist Devices (last survey in December 2021) and Comprehensive Cardiac Center (last survey in June 2022). 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. 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, 2023 through September 1, 2024, 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. SUMIT purchases $175 million of excess reinsurance from various reinsurance companies rated "A" or better by A.M. Best rating agency. 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 $2.5 million per claim for cyber liability coverage in excess of $2.5 million per claim retention. SUMIT purchases $90 million of excess reinsurance jointly covering the Corporation, LPCH, the School of Medicine, SMP 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, subject to various deductibles and retentions, jointly with LPCH:

- Workers' compensation with statutory limits.
- All risk property coverage with a $2 billion aggregate limit. Coverage is 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.
- Builder's risk coverage for property during construction. Limits are equal to construction project value.
- Directors and officers ("D&O") and employment practices liability ("EPL") with $60 million in limits. The Corporation also purchases dedicated "Side A" D&O

coverage (*i.e.*, coverage for claims where corporate indemnification is not available) with $55 million in limits.

- Terrorism coverage with $25 million in limits.
- Nuclear, chemical, biological, and radiological coverage with $25 million in limits.
- Fiduciary coverage with $60 million in limits.
- Crime coverage with $25 million in limits.
- Automobile coverage with a combined single limit of $1 million.

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 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 Official Statement.

EMPLOYEES

As of May 31, 2023, the Corporation employed 14,111 full-time and 3,457 part-time staff, equivalent to 15,700 full-time equivalent employees.

As of May 31, 2023, the Corporation employed 4,644 full and part-time registered nurses. Turnover rate for the registered nursing staff for the past twelve months was approximately 6.26%.

As of May 31, 2023, 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 2025. The current contract with SEIU–UHW is in effect until September 2026. In addition to those Corporation employees covered under active collective bargaining agreements, the Corporation's sleep technologists, security guards, and medical residents have voted to unionize, but are not yet covered under collective bargaining agreements with the Corporation.

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APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF THE CORPORATION AND SUBSIDIARIES

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Stanford Health Care

Consolidated Financial Statements
and Accompanying Consolidating Information
August 31, 2022 and 2021

Stanford Health Care
Index
August 31, 2022 and 2021

Report of Independent Auditors

To the Board of Directors
Stanford Health Care

Opinion

We have audited the accompanying consolidated financial statements of Stanford Health Care and its subsidiaries (“SHC”), which comprise the consolidated balance sheets as of August 31, 2022, and 2021, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SHC as of August 31, 2022, and 2021, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of SHC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SHC’s ability to continue as a going concern for one year after the date the financial statements are issued.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material

if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SHCs internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the SHC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

San Francisco, California
December 6, 2022

Stanford Health Care
Consolidated Balance Sheets
August 31, 2022 and 2021
(in thousands of dollars)

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 536,803	$ 407,044
Short term investments	72,009	74,888
Patient accounts receivables, net	1,023,568	764,948
Other receivables	115,203	156,168
Inventories	107,750	113,421
Prepaid expenses and other	136,216	133,328
Total current assets	1,991,549	1,649,797
Investments	1,827,594	2,058,925
Investments at equity	166,689	134,228
Investments in University managed pools	2,504,088	2,528,927
Property and equipment, net	3,725,488	3,619,451
Right of use lease assets	247,572	292,588
Other assets	51,571	61,507
Total assets	$ 10,514,551	$ 10,345,423
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 623,232	$ 609,021
Accrued salaries and related benefits	482,073	395,637
Due to related parties	69,014	64,063
Third-party payor settlements	63,324	55,659
Current portion of long-term debt	17,065	15,505
Debt subject to remarketing arrangements	168,200	168,200
Operating lease liabilities, current	73,742	79,055
Self-insurance reserves and other	97,400	75,300
Total current liabilities	1,594,050	1,462,440
Self-insurance reserves and other, net of current portion	219,455	218,960
Swap liabilities	145,906	285,654
Operating lease liabilities, non-current	187,592	233,244
Other long-term liabilities	137,195	165,559
Pension liability	2,423	-
Long-term debt, net of current portion	2,110,072	2,135,075
Total liabilities	4,396,693	4,500,932
Net assets:		
Without donor restrictions:		
Attributable to Stanford Health Care	5,934,103	5,663,080
Noncontrolling interests	38,657	30,078
Total without donor restrictions	5,972,760	5,693,158
With donor restrictions	145,098	151,333
Total net assets	6,117,858	5,844,491
Total liabilities and net assets	$ 10,514,551	$ 10,345,423

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, 2022 and 2021
(in thousands of dollars)

	2022	2021
Operating revenues and other support:		
Net patient service revenue	$ 6,922,468	$ 6,052,048
Premium revenue	75,310	118,741
Grants - COVID-19	203,265	406,265
FEMA	12,051	4,202
Other revenue	192,353	179,462
Net assets released from restrictions used for operations	7,020	11,490
Total operating revenues and other support	7,412,467	6,772,208
Operating expenses:		
Salaries and benefits	3,344,920	2,813,222
Professional services	75,439	49,496
Supplies	1,009,604	968,544
Purchased services	1,598,840	1,513,638
Depreciation and amortization	270,346	289,263
Interest	71,940	76,903
Other	522,697	448,357
Expense recoveries to (from) related parties	588	(50,559)
Total operating expenses	6,894,374	6,108,864
Income from operations	518,093	663,344
Interest and investment income	99,924	47,822
Earnings on equity method investments	36,188	41,596
Change in value of University managed pools and other	(375,746)	784,864
Swap interest and change in value of swap agreements	120,324	46,274
Other components of net periodic benefit costs	(3,243)	(1,960)
Loss on extinguishment of debt	-	(2,558)
Excess of revenues over expenses	395,540	1,579,382
Other changes in net assets without donor restrictions:		
Transfers to Stanford University	(112,361)	(100,386)
Transfers from Lucile Salter Packard Children's Hospital	-	99
Change in net unrealized loss on investments	(24,894)	(2,406)
Net assets released from restrictions used for:		
Purchase of property and equipment	2,209	1,016
Purchase of property and equipment - New Stanford Hospital	9,550	18,224
Change in pension and postretirement liability	1,694	9,396
Noncontrolling capital contribution (distribution)	7,864	(1,870)
Loss from discontinued operations	-	(4,202)
Increase in net assets without donor restrictions	279,602	1,499,253
Changes in net assets with donor restrictions:		
Transfers from Stanford University	3,128	1,353
Contributions and other	9,178	34,860
Investment income	1,037	880
(Losses) gains on University managed pools	(799)	11,427
Net assets released from restrictions used for:		
Operations	(7,020)	(11,490)
Purchase of property and equipment	(2,209)	(1,016)
Purchase of property and equipment - New Stanford Hospital	(9,550)	(18,224)
(Decrease) increase in net assets with donor restrictions	(6,235)	17,790
Increase in net assets	273,367	1,517,043
Net assets, beginning of year	5,844,491	4,327,448
Net assets, end of year	$ 6,117,858	$ 5,844,491

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2022 and 2021
(in thousands of dollars)

	2022	2021
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 264,788	$ 1,511,411
Change in noncontrolling interests	8,579	5,632
Total change in net assets	273,367	1,517,043
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	-	2,558
Depreciation and amortization	262,412	284,583
Change in fair value of interest rate swaps	(139,748)	(67,638)
Decrease (increase) in value of University managed pools	74,130	(606,759)
Unrealized losses (gains) on investments	328,577	(185,958)
Excess of income on equity method investees over distributions received	(25,199)	(19,630)
Contributions received for long lived assets or endowment	(11,150)	(25,195)
Net equity transfers to related parties	109,233	98,934
Premiums received from bond issuance	-	17,287
Changes in operating assets and liabilities:		
Patient accounts receivable	(258,620)	(110,606)
Due to related parties	(2,021)	(46,455)
Other receivables, inventory, other assets, prepaid expenses and other	1,772	(14,725)
Accounts payable, accrued liabilities and pension liabilities	(13,386)	(305,751)
Accrued salaries and related benefits	86,436	108,226
Third-party payor settlements	7,665	547
Self-insurance reserves	22,595	11,216
Cash provided by operating activities	716,063	657,677
Cash flows from investing activities:		
Purchases of investments	(904,094)	(1,303,116)
Sales of investments	860,951	43,412
Purchases of investments in University managed pools	(51,483)	(301,890)
Sales of investments in University managed pools	125	717
Swap settlement payments, net	(19,811)	(21,420)
Purchases of property and equipment	(365,946)	(262,522)
Cash used in investing activities	(480,258)	(1,844,819)
Cash flows from financing activities:		
Proceeds from issuance of debt	-	522,815
Costs of issuance of debt	(4)	(3,966)
Payment of long-term debt and finance lease obligations	(15,581)	(552,615)
Contributions received for long lived assets or endowment	10,272	25,164
Net equity transfers to related parties	(100,733)	(40,216)
Cash used in financing activities	(106,046)	(48,818)
Net increase (decrease) in cash and cash equivalents	129,759	(1,235,960)
Cash and cash equivalents, beginning of year	407,044	1,643,004
Cash and cash equivalents, end of year	$ 536,803	$ 407,044
Supplemental data:		
Cash and cash equivalents as shown on the consolidated balance sheets	$ 536,803	$ 407,044
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 79,701	$ 81,580
Supplemental disclosures of non cash information:		
Increase (decrease) in payables for property and equipment	$ 10,624	$ (1,636)
Equity transfers from related parties, net	1,274	433

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 The 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 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"), Stanford Health Care Advantage ("SHC Advantage"), and Eden Radiation Therapy Services, LLC ("ERTS").

On July 26, 2022, Stanford Marketing launched organizational rebranding efforts. Stanford Medicine is the collective brand to unify all entities: pediatric (LPCH), academic (SoM) and adult (SHC). As part of the rebranding initiative, SHC-VC's legal name was changed to Stanford Health Care Tri-Valley ("SHC Tri-Valley") and is no longer being referred to SHC-VC dba. The addition of the Stanford Medicine brand reflects the relationship to the overall enterprise and acknowledges the critical role SHC Tri-Valley plays in extending the reach into the Tri-Valley communities and beyond. UHA has been re-branded Stanford Medicine Partners ("SMP") as UHA's new dba.

SMP, a physician medical foundation, supports SHC's mission of delivering quality care to the community and conducting research and education. In addition, SMP 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 SMP physicians. The SoM and SHC are the members of SMP and appoint directors to the governing board. The SMP bylaws afford control to SHC. SHC entered into a sponsorship agreement with SMP whereby SHC agreed to certain funding for the development and operation of SMP and continued additional funding for future or alternative clinical sites of SMP.

SHC Tri-Valley, a 242 licensed bed community hospital system located in the East Bay's Tri-Valley region of Pleasanton, Livermore, and Dublin, California offers both inpatient and outpatient services. SHC is the sole corporate member. SHC Tri-Valley also owns Tri-Valley Ambulatory Surgery Center, LLC ("TVASC") organized in October 2019. TVASC's operations are targeted to commence by mid-2024.

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.

1. Organization (Continued)

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, 2022 and 2021. 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, 2022 and 2021.

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 79.9% and 77.5% for the years ended August 31, 2022 and 2021, respectively. LPCH's share of net assets in SUMIT was 20.1% and 22.5% for the years ended August 31, 2022 and 2021, 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. 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, 2022 and 2021.

PEAC, a captive insurance carrier, provides insurance coverage to SMP, Packard Children's Health Alliance and other affiliated parties. SHC's share of net assets in PEAC was 52.6% and 56.9% for the years ended August 31, 2022 and 2021, respectively. The remaining interest of 47.4% and 43.1% for the years ended August 31, 2022 and 2021, 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 ("Essence''). Upon closing, on August 1, 2021, SHC Advantage became a part of Essence Healthcare Inc, a subsidiary of Essence, and SHC retained a 17% ownership interest in Essence. In June 2022, SHC's interest in Essence was liquidated.

On February 8, 2021, Oncology Solutions Venture, LLC ("OSV") was formed as a limited liability company to expand access to coordinated, state-of-the-art cancer care services for patients and their families in the East Bay region. SHC and Sutter Bay Hospitals ("Sutter") are the only members of OSV. SHC will contribute $3,000 as the initial capital contribution with 60% interest and Sutter will contribute $2,000 with 40% interest. No significant activities have occurred during the fiscal year ending August 31, 2022 and 2021.

1. Organization (Continued)

On February 23, 2022, ERTS was formed as a limited liability company to provide a stable, high quality academically integrated radiation oncology service to patients residing in the Eden area, to complement to SHC's broader cancer network and the Sutter Stanford Cancer Collaborative. SHC and Sutter are the only members of ERTS. SHC and Sutter initial capital contributions were $10,847 and $7,864, respectively. In addition to these initial capital contributions, SHC and Sutter will contribute approximately $1,400 and $300, respectively of other assets, which results in SHC and Sutter interest in ERTS of 60% and 40%, respectively.

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 such cash equivalents as short-term investments, therefore, excluded from cash and cash equivalents on the consolidated statements of cash flows.

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.

2. Summary of Significant Accounting Policies (Continued)

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 East Bay Real Estate Ventures ("EBREV"). 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 EBREV 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, 2022 and 2021.

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, 2022 and 2021.

PPA II is a California limited liability company which owns and operates a medical office building in Pleasanton. SHC Tri-Valley's interest in PPA II was 39% for the years ended August 31, 2022 and 2021.

EBREV was formed on February 8, 2021 as a limited liability company to develop, construct, and manage a medical office and outpatient services facility on the Alta Bates Summit Medical Center campus at 350 Hawthorne Avenue, Oakland, California. SHC and Sutter are the only members of EBREV and will contribute $1,000 each as the initial capital contribution and for 50% of interest. No significant activities have occurred during the fiscal years ending August 31, 2022 and 2021.

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 SHC's share of the Pools is determined by the University and is based on the fair value of the underlying assets in the Pools.

2. Summary of Significant Accounting Policies (Continued)

Investments in University Managed Pools (continued)
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 change in the value of SHC's share of the Pools. All unrestricted investment gains and losses in the MP and change in the MP share value are included in the excess of revenues over expenses.

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

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

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 Long-term Liquidity portfolio or Long-term portfolio. The Long-term Liquidity portfolio is primarily invested in fixed income and equity mutual funds and exchange traded 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 in the MP 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.

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets and Liquid Resources (continued)

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

	2022	2021
Financial assets:		
Cash and cash equivalents	$ 536,803	$ 407,044
Patient accounts receivables, net	1,023,568	764,948
Short term investments	72,009	74,888
Investments in mutual funds	621,995	1,417,179
Separately managed accounts	475,132	489,713
10% of long-term investments in Merged Pool	238,931	241,110
Financial assets available to meet cash needs for general expenditure within one year	$ 2,968,438	$ 3,394,882
Liquid resources:		
Revolving line of credit capacity	100,000	100,000
Total financial assets and liquid resources available within one year	$ 3,068,438	$ 3,494,882

In November 2021, SHC extended its revolving line of credit facility until November 2024 and reduced its size to $150,000, of which $50,000 is earmarked for the issuance of stand-by letters of credit as described further in Note 9.

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

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.

2. Summary of Significant Accounting Policies (Continued)

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. ASC Topic 842 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.

Other Assets

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

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. 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 2022 and 2021, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as an increase (decrease) to swap interest and change in value of swap agreements in the consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (Continued)

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.

Cash Flows from Financing Activities

Included within the cash flows financing activities section, is a cash inflow from a restricted donation made by Charities Aid Foundation on the instruction by The Dalia and Ramzi Rishani Charitable Trust of $1,000 of which $35 has been used and is an outflow within the operating activities. The remaining balance of $965 will be carried forward at the end of the year.

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. Certain net patient service revenues received are subject to retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

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.

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (continued)

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.

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

SMP 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 SMP 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.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

SHC, SMP, SHC Tri-Valley and SHC Advantage are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. ERTS, EBREV, OSV, 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 Advantage was acquired by Essence on August 1, 2021 and converted to a for-profit entity. In June 2022, SHC's interest in Essence was liquidated. 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.

Self-Insurance Plans

SHC, SHC Tri-Valley 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.

- ***Professional Liability*** — SHC, SHC Tri-Valley and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC Tri-Valley and SBC also maintain professional liability reserves for claims not covered by SUMIT which total $13,959, $1,385, and $92 as of August 31, 2022, respectively. As of August 31, 2021, this coverage was $11,287, $970, and $72 for SHC, SHC Tri-Valley 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 Tri-Valley 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 actuarially determined.

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.

2. Summary of Significant Accounting Policies (Continued)

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.

Expense Recoveries from Related Parties

Expense recoveries from related parties have been reclassified during the current year and may not be comparable to prior year consolidated financial statements.

Recent Pronouncements – effective in fiscal years 2022 and 2021

The FASB ASC is the sole source of authoritative non-governmental GAAP.

Fair value disclosures – 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 portion of this guidance that modified and removed fair value disclosure requirements was early adopted in fiscal year 2019. The remaining guidance was adopted in fiscal year 2021 and it did not materially impact SHC's consolidated financial statements.

Intangibles - goodwill and other – In May 2019, the FASB issued ASU 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. This ASU allows Not-for-Profit Entities to amortize goodwill on a straight-line basis over 10 years or less than 10 years if appropriate and option to test impairment. The guidance is effective for SHC during the fiscal year ending August 31, 2021 and it did not materially impact SHC's consolidated financial statements.

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 and it did not materially impact SHC's 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. This guidance was adopted in fiscal year 2022. Refer to Note 10 for applicable disclosures.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2022 and 2021 (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. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements.

Accounting for certain equity method investments – In January 2020, the FASB issued ASU 2021-01, *Clarifying the Interactions between Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. This ASU clarifies the accounting treatment of certain equity securities upon application or discontinuation of the equity method of accounting and clarifies accounting of forward contracts and purchased options for securities that will be accounted for under the equity method of accounting upon settlement or exercise. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements.

Reference rate reform – In March 2020 and January 2021, the FASB issued ASU 2020-04 and 2021-01, respectively, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. These ASUs contain optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements.

Contributed nonfinancial assets – In September 2020, the FASB issued ASU 2021-07, *Contributed nonfinancial assets.* This ASU provides enhanced presentation and disclosure requirements for contributed nonfinancial assets for not-for-profit entities including additional disclosure requirements for recognized contributed services. Contributed nonfinancial assets should be presented in a separate line item in the consolidated statement of operations and changes in net assets, apart from cash contributions. Additional disclosures are required about qualitative information, policy (if any) on monetizing rather than utilizing, donor-imposed restrictions and fair value measurement of contributed nonfinancial assets. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements.

Recent Pronouncements – effective in future periods

Leases – In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, which allows lessees that are not public business entities to make an accounting policy election by class of underlying asset, rather than on an entity-wide basis, to use a risk-free rate as the discount rate when measuring and classifying leases. The guidance is effective for fiscal year 2023. 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.

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.

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

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

	2022	2021
Medicare	$ 1,119,713	$ 1,019,262
Medi-Cal	168,892	131,372
Managed Care - Discounted Fee For Services	5,327,820	4,720,044
Self pay and other	261,785	140,074
Related party	44,258	41,296
Net patient service revenue	$ 6,922,468	$ 6,052,048

SHC recognized net patient service revenue adjustments of $3,004 and $9,791 as a result of prior years favorable and unfavorable developments related to reimbursement for the years ended August 31, 2022, and 2021, respectively. SHC also recognized revenues of $3,065 and $54 as a result of prior years appeals settled during the year ended August 31, 2022, and 2021.

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:

	2022	2021
Blue Cross	25%	31%
Medicare	11%	13%
Aetna	10%	13%
Blue Shield	9%	12%
United Health	7%	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.

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, 2022. 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 program for January 1, 2014, through June 30, 2019.

For the years ended August 31, 2022, and 2021, respectively, SHC recognized $98,230 and $46,008 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, 2022, and 2021, respectively, SHC recognized $54,850 and $41,674 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.

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program (continued)
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 Managed Program of the first iteration. Accordingly, any potential activity under the Managed Care program related to July 1, 2019, through December 31, 2021, has not been recognized as revenue in the consolidated financial statements.

SHC recorded $73,145 and $103,480 in deferred revenue as of August 31, 2022, and 2021, respectively, pending CMS approval. SHC also recorded $44,121 and $54,639 as prepaid expense for the years ended August 31, 2022, and 2021 respectively, pending CMS approval. Deferred revenue and prepaid expenses associated with unapproved HQAF will be recognized as revenue and expense respectively, upon CMS approval.

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:

	2022	2021
Charity care at established rates	$ 75,804	$ 92,465
Estimated cost of charity care, net	$ 16,202	$ 19,239

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.

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

	2022	2021
Charity care	$ 16,202	$ 19,239
Medi-Cal	466,750	426,352
Medicare	1,261,205	1,062,545
Total	$ 1,744,157	$ 1,508,136

(in thousands of dollars)

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 discount rates ranging from 0.64% to 3.84% for fiscal year August 31, 2022 and 0.64% to 3.63% for fiscal year August 31, 2021.

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

	2022	2021
In one year or less	$ 29,346	$ 29,398
Between one year and five years	13,695	19,755
More than five years	2,250	4,000
	45,291	53,153
Less: discount/allowance	(3,414)	(4,293)
Total contributions receivable, net	41,877	48,860
Less: current portion	(26,858)	(26,595)
Contributions receivable, net of current portion	$ 15,019	$ 22,265

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

	2022	2021
Plant replacement and expansion	$ 44,215	$ 51,800
Other patient and clinical services	1,076	1,353
Total	$ 45,291	$ 53,153

There were no conditional pledges at August 31, 2022 and 2021.

(in thousands of dollars)

6. Investments and Investments in University Managed Pools

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

	Fair Value	
	2022	2021
Short term investments:		
Fixed income	$ 72,009	$ 74,888
Investments:		
Short term investments	$ 59,794	$ 60,003
Fixed income	672,321	766,210
Public equity	1,061,767	1,211,571
Other	33,712	21,141
Total	$ 1,827,594	$ 2,058,925

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

	Fair Value	
	2022	2021
Investments in University managed pools:		
Merged Pool	$ 2,496,032	$ 2,521,834
Expendable Funds Pool	8,056	7,093
Total	$ 2,504,088	$ 2,528,927

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.

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

	Allocation	
	2022	2021
Cash and cash equivalents	2%	2%
Fixed income	7%	8%
Public equities	22%	25%
Real estate	6%	6%
Natural resources	4%	4%
Absolute return	18%	16%
Private equities	41%	39%
Total	100%	100%

(in thousands of dollars)

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

The following table summarizes the fair value and gross unrealized losses aggregated by fixed income asset classes and the length of time that each category has been in a continuous unrealized loss position.

Single year depicted for simplicity.

	Less than twelve months		Greater than twelve months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government and Agencies	$ 72,009	$ 3,069	$ 136,839	$ 4,349	$ 208,848	$ 7,418
Investment Grade Corporate	-	-	251,945	14,754	251,945	14,754
Securitized	-	-	86,348	5,127	86,348	5,127
Total Investment	**$ 72,009**	**$ 3,069**	**$ 475,132**	**$ 24,230**	**$ 547,141**	**$ 27,299**

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.

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)

Investments in University managed pools are measured at Net Asset Value ("NAV") since the managed pool assets are invested on behalf of SHC by SMC, according to the terms of an Investment Management Agreement. These assets are part of a diversified portfolio of actively managed public and private equity, absolute return, natural resources, and real estate. The NAV is reported to SHC by the University in accordance with their policies.

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:

	2022			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 596,597	$ -	$ -	$ 596,597
Fixed income	672,321	72,009	-	744,330
Public equities	1,061,767	-	-	1,061,767
Other	9,161	-	24,551	33,712
Total assets in the fair value hierarchy	$ 2,339,846	$ 72,009	$ 24,551	2,436,406
Investments measured at NAV practical expedient:				
Investments in University managed pools				2,504,088
Total assets at fair value				$ 4,940,494
Liabilities				
Interest rate swap instruments	$ -	$ 145,906	$ -	$ 145,906

	2021			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 467,047	$ -	$ -	$ 467,047
Mutual funds	766,210	74,888	-	841,098
Public equities	1,211,571	-	-	1,211,571
Other	-	-	21,141	21,141
Total assets in the fair value hierarchy	$ 2,444,828	$ 74,888	$ 21,141	2,540,857
Investments measured at NAV practical expedient:				
Investments in University managed pools				2,528,927
Total assets at fair value				$ 5,069,784
Liabilities				
Interest rate swap instruments	$ -	$ 285,654	$ -	$ 285,654

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:

	2022	2021
Balance, beginning of year	$ 21,141	$ 8,678
Purchases	2,699	1,600
Sales	(1,600)	-
Realized and Unrealized gain	2,311	10,863
Balance, end of year	$ 24,551	$ 21,141

(in thousands of dollars)

7. Fair Value Measurements (Continued)

During the year ended August 31, 2022, SHC made $2,699 investments toward a Level 3 security and sold one Level 3 investment for $1,600. SHC made $1,600 investments toward a Level 3 security for the year ended August 31, 2021. There was no transfer between Level 3 and Level 1 for the years ended August 31, 2022 and 2021.

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2022 and 2021. Most of the SHC Level 3 investments are private investments, for which observable prices are not available. For each investment category and respective valuation technique, the range of the significant unobservable input is dependent on the nature and characteristics of the investment and may vary at each balance sheet date.

Investment Categories	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range		Weighted Average	Impact to Valuation from an Increase in Input
				Min	Max		
2022							
Other	$ 24,551	Market comparables	Recent transactions	N/A	N/A	N/A	N/A
2021							
Other	$ 21,141	Market comparables	Recent transactions	N/A	N/A	N/A	N/A

8. Property and Equipment

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

	2022	2021
Land and improvements	$ 155,325	$ 77,368
Buildings and leasehold improvements	3,912,975	3,817,842
Equipment	1,720,456	1,650,865
	5,788,756	5,546,075
Less: Accumulated depreciation	(2,566,698)	(2,314,043)
Construction-in-progress	503,430	387,419
Property and equipment, net	$ 3,725,488	$ 3,619,451

Depreciation and amortization expense totaled $270,346 and $289,263 for the years ending August 31, 2022 and 2021, respectively, and is included in the consolidated statements of operations and changes in net assets.

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. SHC has no capitalized interest expense as of August 31, 2022 and 2021 since the New Stanford Hospital was capitalized in fiscal year 2020.

ARO are capitalized and recorded in buildings and leasehold improvements. SHC recorded current period accretion expense of $3,648 and $3,591 in the consolidated statements of operations and changes in net assets of the years ended August 31, 2022 and 2021, respectively. ARO liability of $111,300 and $107,652 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2022 and 2021, respectively.

(in thousands of dollars)

9. Debt Obligations

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

	Face Value	Fiscal Years of Maturity	Effective Interest Rates 2022 / 2021	Outstanding Principal 2022	Outstanding Principal 2021
Fixed Rate Obligations					
Tax-Exempt					
2008 Series A-2 Refunding Revenue Bonds	$ 104,100	2022	- / 3.81%	$ -	$ 450
2008 Series A-3 Refunding Revenue Bonds	84,165	2022	- / 3.81%	-	375
2012 Series B Refunding Revenue Bonds	68,320	2023	2.57% / 2.52%	7,430	14,985
2015 Series A Revenue Bonds	100,000	2052 - 2054	4.10%	100,000	100,000
2017 Series A Refunding Revenue Bonds	454,200	2023 - 2041	2.87% / 2.85%	447,075	454,200
2020 Series A Revenue Bonds	170,120	2050	2.70%	170,120	170,120
2021 Series A Revenue Bonds	157,715	2025	0.42%	157,715	157,715
Taxable					
2018 Series Bonds	500,000	2049	3.80%	500,000	500,000
2020 Series Bonds	300,000	2030	3.31%	300,000	300,000
2021 Series Bonds	365,100	2051	3.03%	365,100	365,100
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042 - 2046	1.38% / 0.07%	168,200	168,200
Total principal amounts				2,215,640	2,231,145
Unamortized original issue premiums/discounts, net				93,349	102,257
Unamortized costs of issuance				(13,652)	(14,622)
Current portion of long-term debt				(17,065)	(15,505)
Debt subject to remarketing arrangements				(168,200)	(168,200)
Long-term debt, net of current portion				$ 2,110,072	$ 2,135,075

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 and secured under a master trust indenture between SHC and the master trustee. SHC is currently the only member of the Obligated Group. None of the related entities listed in Note 1 is a member of the obligated group or is otherwise obligated with respect to debt obligations. 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 $2,215,640 and $2,231,145 as of August 31, 2022 and 2021, respectively.

In November 2021, SHC amended its revolving line of credit facility by extending the maturity date until November 2024 and modifying the reference rate to the Bloomberg Short-Term Yield Index Rate ("BSBY"). Drawdowns from the facility bear interest at BSBY plus an applicable spread. The size of the facility is $150,000, of which $50,000 is earmarked for the issuance of stand-by letters of credit. No amounts were outstanding as of August 31, 2022 or August 31, 2021.

In April 2021, CHFFA, on behalf of SHC, issued fixed rate 2021 Series A Revenue Bonds ("2021 Series A") in the aggregate principal amount of $157,715 plus an original issue premium of $17,287. The bonds have a mandatory put date on August 15, 2025. Proceeds of the 2021 Series A bonds were used to refund the 2012 Series D and 2015 Series B bonds previously issued by CHFFA for the benefit of SHC.

In April 2021, SHC issued the 2021 Taxable Bonds in the amount of $365,100. The bonds bear interest at a coupon rate of 3.027% and mature on August 15, 2051. Proceeds were used to advance refund the 2012 Series A bonds previously issued by CHFFA for the benefit of SHC. All advance refunded bonds are considered extinguished.

In April 2021, SHC established a $150,000 taxable commercial paper facility to be used for general corporate purposes. No amount was outstanding as of August 31, 2022 and August 31, 2021.

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 a tender notice of any of the 2008 Series B bonds, 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.

(in thousands of dollars)

9. Debt Obligations (Continued)

Scheduled principal payments on long-term debt are summarized below:

	Scheduled Maturities	Debt subject to Remarketing	Debt subject to Mandatory Tender	Total
2023	$ 17,065	$ 168,200	$ -	$ 185,265
2024	13,475	-	-	13,475
2025	17,615	-	157,715	175,330
2026	18,480	-	-	18,480
2027	19,320	-	-	19,320
Thereafter	1,803,770	-	-	1,803,770
Total	$ 1,889,725	$ 168,200	$ 157,715	$ 2,215,640

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 fiscal year 2023, if any, and payments scheduled to be made in fiscal year 2023. Debt subject to remarketing includes long-term debt obligations subject to short-term remarketing.

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. In 2021, SHC advance refunded its 2012 Series A bonds through the issuance of the aforementioned $365,100 Series 2021 taxable bonds. All advance refunded bonds are considered extinguished. Any outstanding 2008 Series A bonds have been redeemed at par by the trustee on November 15, 2021. Any outstanding 2012 Series A bonds have been redeemed at par by the trustee on August 15, 2022.

Interest Rate Swap Agreements
SHC originally 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, 2022:

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	65,450	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	252,825			
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	$ 573,725			

SHC designates its interest rate swaps that are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions 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 has changed, resulting in de-designation of the hedge. Over the years, the underlying bonds that were being hedged were refinanced or paid down and as a result, none of the outstanding swap contracts are treated as a hedging instrument 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	2022	2021	Balance Sheet Location
Fixed Payment Swaps	$ 145,906	$ 285,654	Swap liabilities

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 Gain		
Description	2022	2021	Statement of Operations Location
Fixed Payment Swaps	$ 139,748	$ 67,638	Swap interest and change in value of swap agreements

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

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 $0 and $21,154 of cash collateral posted by SHC at August 31, 2022 and 2021, respectively.

Upon the occurrence of certain events of default or termination events identified in the swap 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 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.

SHC records 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.

Bond Interest Expense

Total bond interest expense was $71,939 and $73,309 for the years ended August 31, 2022 and 2021, respectively. Interest capitalized as a cost of construction was $0 for the years ended August 31, 2022 and 2021.

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 $152,602 and $130,865, SMP employer contributions totaling $6,501 and $4,382 and SHC Tri-Valley employer contributions totaling $5,719 and $5,981, for the years ended August 31, 2022 and 2021, 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 (“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 $124 and $135 in cash for the years ending August 31, 2022 and 2021, 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.

(in thousands of dollars)

10. Retirement Plans (Continued)

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2022 and 2021, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $117,266 and $116,620 as of August 31, 2022 and 2021, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $86,276 and $86,856 as of August 31, 2022 and 2021, respectively, which represents the liability for SHC employees excluding LPCH employees.

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	
	2022	2021	2022	2021
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 213,366	$ 210,752	$ -	$ -
Actual return on plan assets	(37,941)	13,438	-	-
Employer contributions	-	-	6,244	5,632
Participants contributions	-	-	1,489	1,251
Benefits paid	(10,350)	(10,375)	(7,831)	(6,989)
Medicare subsidies received	-	-	98	106
Expenses paid	(481)	(449)	-	-
Fair value of plan assets at end of year	$ 164,594	$ 213,366	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 213,136	$ 219,407	$ 116,620	$ 113,212
Service cost	1,104	1,083	5,156	4,829
Interest cost	5,097	4,978	2,700	2,388
Participants contributions	-	-	1,489	1,251
Benefits paid	(10,350)	(10,375)	(7,831)	(6,989)
Medicare subsidies received	-	-	98	106
Expenses paid	(481)	(449)	-	-
Plan amendments	-	-	22,245	-
Actuarial (gain) loss	(41,489)	(1,508)	(23,211)	1,823
Benefit obligation at end of year	$ 167,017	$ 213,136	$ 117,266	$ 116,620
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (2,423)	$ 230	$ (117,266)	$ (116,620)
Net benefit (liability) asset recognized	$ (2,423)	$ 230	$ (117,266)	$ (116,620)
Amounts recognized in consolidated balance sheets:				
Noncurrent assets	$ -	$ 230	$ -	$ -
Current liabilities	-	-	(7,567)	(7,231)
Noncurrent liabilities	(2,423)	-	(109,699)	(109,389)
Net benefit (liability) asset recognized	$ (2,423)	$ 230	$ (117,266)	$ (116,620)
Amounts recognized in net assets without donor restrictions:				
Prior service cost	$ -	$ -	$ (37,146)	$ (17,316)
Net (loss) gain	(52,677)	(50,625)	20,517	(2,861)
Net assets without donor restrictions	$ (52,677)	$ (50,625)	$ (16,629)	$ (20,177)

(in thousands of dollars)

10. Retirement Plans (Continued)

The accumulated benefit obligation for the Staff Pension Plan was $166,054 and $211,330 as of August 31, 2022 and 2021, respectively.

SHC's Staff Pension Plan net benefit obligation decreased during fiscal year 2022 due to an increase in the discount rate from 2.46% to 4.68%.

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

	Staff Pension Plan Obligations	
	2022	2021
Service cost	$ 1,104	$ 1,083
Periodic benefit expense	1,104	1,083
Non-operating:		
Interest cost	5,097	4,978
Expected return on plan assets	(7,627)	(9,270)
Amortization of net loss	2,027	2,408
Non-operating periodic benefit cost	(503)	(1,884)
Total net periodic benefit cost	$ 601	$ (801)

	Postretirement Medical Benefits	
	2022	2021
Service cost	$ 5,156	$ 4,829
Periodic benefit expense	5,156	4,829
Non-operating:		
Interest cost	2,700	2,388
Amortization of prior service cost	2,415	2,976
Amortization of net loss	167	68
Non-operating periodic benefit cost	5,282	5,432
Total net periodic benefit cost	$ 10,438	$ 10,261

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	
	2022	2021	2022	2021
Net loss (gain) arising during period	$ 4,079	$ (5,676)	$ (23,211)	$ 1,823
New prior service cost	-	-	22,245	-
Amortizations				
Prior service cost	-	-	(2,415)	(2,976)
Loss	(2,027)	(2,408)	(167)	(68)
Total recognized in net assets without donor restrictions	$ 2,052	$ (8,084)	$ (3,548)	$ (1,221)
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ 2,653	$ (8,885)	$ 6,890	$ 9,040

(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	
	2022	2021	2022	2021
Weighted-average assumptions				
Discount rate	4.68%	2.46%	4.69%	2.39%
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	
	2022	2021	2022	2021
Weighted-average assumptions				
Discount rate	2.46%	2.33%	2.39%	2.18%
Expected return on plan assets	4.00%	5.00%	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 discount rate is based on Mercer Yield Curve results based on high quality corporate bond yields as of the measurement date using the individual plan's benefit obligation cash flows. The evaluation of the historical returns and the future expected returns resulted in the use of 4.0% as the assumption for the expected return on plan assets.

To determine the accumulated postretirement benefit obligation as of August 31, 2022, a 7.15% for Post-65 and a 5.60% for Pre-65 annual rate of increase in the per capita cost of covered health care were assumed for calendar year 2022, declining gradually to 4.0% for both Post-65 and Pre-65, by 2038, and remaining at this rate thereafter.

Staff Pension Plan Assets

SHC's Staff Pension Plan ("Plan") weighted-average asset allocations as of the measurement date August 31, 2022 and 2021, respectively, by asset category are as follows:

Asset Category	2022	2021
Debt securities	90%	90%
Equity securities	10%	10%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (Continued)

Staff Pension Plan Assets (continued)

The following table summarizes SHC's 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:

	2022			
	Level 1	Level 2	Level 3	Total
Domestic debt securities	$ 147,758	$ -	$ -	$ 147,758
Domestic equity securities	8,190	-	-	8,190
Non-U.S. equity securities	8,216	-	-	8,216
Cash and cash equivalents	430	-	-	430
Total Plan assets at fair value	$ 164,594	$ -	$ -	$ 164,594

	2021			
	Level 1	Level 2	Level 3	Total
Domestic debt securities	$ 191,605	$ -	$ -	$ 191,605
Domestic equity securities	10,950	-	-	10,950
Non-U.S. equity securities	10,385	-	-	10,385
Cash and cash equivalents	426	-	-	426
Total Plan assets at fair value	$ 213,366	$ -	$ -	$ 213,366

Staff Pension Plan Investments

The investment objective of the Plan is to meet its pension obligations as promised by the Plan. The Plan is managed within the limits of Section 404 of the Employee Retirement Income Security Act. The Plan's investment portfolio is governed by an investment policy statement outlining the appropriate level of risk which is defined as funded status volatility. This portfolio is managed by an investment manager hired on behalf of the Plan and its beneficiaries.

The focus of the asset allocation is on funded status stabilization, with a secondary objective of improving the funded status over time. Based on the current funded status of the Plan, the Plan has adopted a static asset allocation and allowable range as seen below.

Funded Ratio	Return Seeking Assets (Equity)	Liability Hedging Assets (Fixed Income)
Target	10%	90%
Allowable range	0%-15%	85%-100%

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 United States 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.

(in thousands of dollars)

10. Retirement Plans (Continued)

Staff Pension Plan Investments (continued)

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, 2022, SHC did not have concentrations of risk.

Expected Contributions
SHC expects to make no contributions to the Plan for both SHC and LPCH employees during the fiscal year ending August 31, 2022. SHC expects to contribute $5,673 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2022.

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
2023	$ 12,103	$ 7,567	$ 7,802
2024	12,296	7,938	8,045
2025	12,449	8,297	8,398
2026	12,543	8,637	8,732
2027	12,528	8,962	9,051
2028- 2032	60,732	50,005	50,345

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, 2020	$ 4,193,905	$ 4,169,459	$ 24,446
Excess of revenues over expenses	1,579,382	1,572,009	7,373
Noncontrolling capital distribution	(1,870)	-	(1,870)
Other changes in net assets without donor restrictions	(78,259)	(78,388)	129
Balance as of August 31, 2021	5,693,158	5,663,080	30,078
Excess of revenues over expenses	395,540	394,823	717
Noncontrolling capital contribution	7,864	-	7,864
Other changes in net assets without donor restrictions	(123,802)	(123,800)	(2)
Balance as of August 31, 2022	$ 5,972,760	$ 5,934,103	$ 38,657

(in thousands of dollars)

12. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at August 31:

	2022	2021
Subject to expenditure for specified purpose:		
Other	$ 48,550	$ 49,442
Pledges receivable	41,877	48,860
Plant facilities	13,390	10,353
Total subject to expenditure for specified purpose	103,817	108,655
Subject to restriction in perpetuity:		
Accumulated appreciation	25,737	27,305
Endowment	15,544	15,373
Total subject to restriction in perpetuity	41,281	42,678
Total net assets with donor restrictions	$ 145,098	$ 151,333

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 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.

(in thousands of dollars)

12. Net Assets With Donor Restrictions (Continued)

Endowments (continued)

Changes in SHC's donor endowment for the years ended August 31, 2022 and 2021 are as follows:

	2022	2021
Endowment net assets, beginning of year	$ 42,678	$ 31,249
Investment return:		
Investment income	883	770
Mark to market adjustments	(2,067)	10,258
Total investment return	(1,184)	11,028
Transfer	-	153
Contributions	171	740
Expenditures	(384)	(492)
Endowment net assets, end of year	$ 41,281	$ 42,678

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by California UPMIFA, as of August 31, 2022 and 2021 are as follows:

	2022	2021
Clinical services	$ 7,325	$ 7,906
Education	10,536	10,854
Indigent care and other	23,420	23,918
Total endowment classified as net assets with donor restrictions	$ 41,281	$ 42,678

All of SHC's endowment, totaling $41,281 and $42,678 at August 31, 2022 and 2021, 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.

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.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
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 $1,064,642 and $958,119 for the years ended August 31, 2022 and 2021, 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 $163,441 and $150,869 for the years ended August 31, 2022 and 2021, 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 $957 for both years ended August 31, 2022 and 2021. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements and parking garages and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 11 years total $10,317. Annual service fees range from approximately $957 for the year ending August 31, 2023 to $646 for the year ending August 31, 2033.

SHC also received payments for services provided to the University including primarily building maintenance, housekeeping, security, and information technology ("IT''). 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 $96,715 and $85,065 for the years ended August 31, 2022 and 2021, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $8,210 and $8,838 for the years ended August 31, 2022 and 2021, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and various categories in the consolidated statements of operations and changes in net assets.

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, 2022 and 2021. The remaining amount included in other assets in the consolidated balance sheets is $3,163 and $3,271 as of August 31, 2022 and 2021, respectively.

For the years ended August 31, 2022 and 2021, SHC transferred $112,361 and $100,386, 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 $112,361 and $100,386 for the years ended August 31, 2022 and 2021, respectively, are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

SHC also received equity transfers of $3,128 and $1,353 during the years ended August 31, 2022 and 2021, 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, 2022 and 2021, SHC had an interest rate swap liability to Goldman Sachs of $38,582 and $71,203, respectively, and there is no posted collateral for the years ended August 31, 2022 and August 31, 2021, for the same interest rate swap agreement. Additionally, SHC made net swap payments to Goldman Sachs of $3,769 and $4,025 for the years ended August 31, 2022 and 2021, 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 $41,688 and $48,826 for the years ended August 31, 2022 and 2021, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

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 $44,258 and $41,296 for the years ended August 31, 2022 and 2021, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other services provided by SHC include services provided by interns and residents, building maintenance, IT and utilities. Reimbursement of these services totaled $46,660 and $44,362 for the years ended August 31, 2022 and 2021, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

During the year ended August 31, 2022 and 2021, SHC received $0 and $99 from LPCH which represented reimbursement for a capital equipment.

(in thousands of dollars)

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.

For the years ended August 31, 2022 and 2021, the components of SHC lease expenses and the classification of such expenses in SHC consolidated statements of operations and changes in net assets are as follows:

Components of Lease Cost	Classification on Consolidated Statements of Operations and Changes in Net Assets	2022	2021
Operating lease cost	Other	$ 78,618	$ 85,098
Short term lease cost	Other	10,624	11,864
Variable lease cost	Other	10,936	16,023
Finance lease cost:			
Amortization of leased assets	Depreciation and amortization	70	70
Interest on lease liabilities	Interest	1	2
Sublease income	Other revenue	(2,801)	(5,323)
Total		$ 97,448	$ 107,734

For the years ended August 31, 2022 and 2021, the supplemental cash flow information related to leases are as follows:

	2022	2021
Operating cash flows from operating leases	$ 83,180	$ 86,352
Operating cash flows from finance leases	1	2
Financing cash flows from finance leases	76	75
Total	$ 83,257	$ 86,429

For the years ended August 31, 2022 and 2021, the right-of-use assets obtained in exchange for new lease obligations are as follows:

	2022	2021
Operating leases	$ 27,892	$ 30,858

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)

For the years ended August 31, 2022 and 2021, the weighted-average lease terms and discount rates for operating and finance leases are as follows:

Weighted-average remaining lease term:	2022	2021
Operating leases	5.57 years	5.73 years
Finance leases	0.17 years	1.17 years

Weighted-average discount rate:	2022	2021
Operating leases	2.14%	2.02%
Finance leases	1.79%	1.79%

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to August 31, 2022:

Year Ending August 31,	Operating	Finance	Total
2023	$ 78,484	$ 13	$ 78,497
2024	56,305	-	56,305
2025	39,507	-	39,507
2026	29,080	-	29,080
2027	21,935	-	21,935
Thereafter	53,783	-	53,783
Total lease payments	279,094	13	279,107
Less Interest	(17,773)	-	(17,773)
Total lease liabilities	261,321	13	261,334
Less current lease liabilities	(73,729)	(13)	(73,742)
Total non-current lease liabilities	$ 187,592	$ -	$ 187,592

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, 2022:

Year Ending August 31,	
2023	$ 5,338
2024	4,461
2025	2,504
2026	1,703
2027	953
Thereafter	8,931
Total	$ 23,890

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 $26,575, 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, 2022.

As of August 31, 2022, SHC had contractual obligations of approximately $145,014 primarily related to hospital renovations and other capital projects and approximately $527,265 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.

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.

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 33%. There are currently no expired agreements.

15. Commitments and Contingencies (Continued)

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 2021 and 2030. SHC remains in compliance with all applicable deadlines.

The California Department of Health Care Access and Information ("HCAI"), formerly the Office of Statewide Health Planning and Development ("OSHPD") has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards through 2030 and beyond. Certain inpatient care units are located in three existing 1959-era buildings that can be used for inpatient care until an interim deadline of January 1, 2026, and no later than a final deadline of January 1, 2030, at which time they must be removed from general acute care service. However, these three buildings have utility system configurations that have been modified to support critical infrastructure for inpatient units, until they are removed from acute care service. Work has been completed to remedy the utility infrastructure deficiencies. Work is in progress to construct additional inpatient beds to completely relocate all inpatients from non-compliant structures. Due to delays in construction and impacts from the pandemic, work to complete the bed tower renovations may surpass the current regulatory deadline of January 1, 2026. SHC management is confident that an extension for regulatory compliance will be attained.

SHC also has several 1959-era buildings that do not meet the structural seismic safety standards for 2020 compliance, but which do not contain any inpatient hospital functions. By prior agreement with the State, SHC reconfigured critical infrastructure that is required for life safety, and which would enable safe evacuation without compromising life safety for patients or staff. All critical utility infrastructure reconfiguration work has been completed in full compliance and approval by the State. HCAI has re-classified these non-hospital structures, which are no longer subject to seismic safety requirements for hospitals.

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 enabled the rebuilding of Stanford Hospital and the expansion of 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. As of August 31, 2022, SHC has capitalized $2,100 million, exclusive of $181 million in capitalized interest, related to this project. SHC's portion of the Renewal Project construction was completed in fall 2019.

In October 2020, major renovations ("300P Renewal") began on the D Pod patient care unit, which will modernize the four floors for all private patient rooms, enlarged bathrooms, and accommodation for rooming-in of family. D Pod is scheduled to re-open for inpatient care mid-year 2023. In fall 2020, renovation commenced on the former adult emergency department to convert a large portion of it for a dedicated pediatric emergency service. The Pediatric ED was opened for patient care in May 2022. Other major renovations that started in 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 several years, additional renovations are planned for the E Pod and F Pod patient care units, and new construction of 57 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, 2022, approximately $261 million, which was primarily for design and construction, was recorded to construction in progress. Estimated cost of the 300P Renewal program is approximately $1.6 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 businesses and individuals. SHC suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March 2020 through early May 2020 and various times in fiscal year 2021 due to COVID-19. The COVID-19 pandemic continued to cause major disruptions to our nation's healthcare systems. The emergence of COVID-19 variants and related surges in COVID-19 cases contributed to certain setbacks to the global economy reopening and triggered reinstatement of healthcare restrictions. The resulting financial impacts to SHC came in the form of significant lost revenue and additional expense. SHC has received various forms of federal relief described below to partially offset the aforementioned losses.

Under certain provisions in the CARES Act, other provider relief funding, and Federal Emergency Management Agency ("FEMA"), SHC recognized benefits totaling $215 million and $410 million in its consolidated statement of operations for the years ended August 31, 2022 and August 31, 2021, respectively. The $215 million benefit is comprised of $203 million in Provider Relief Funds and $12 million of funding from FEMA, all of which are reported in operating revenue. The $410 million benefit was comprised of $393 million of Provider Relief Funds, $8.5 million for employee retention tax credit, $4.5 million of other grants and credits, and $4 million of funding from FEMA, all of which were reported in operating revenue.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of August 31, 2022, deferred payments are $21 million, all of which are current and are reported as accrued salaries and benefits on the accompanying consolidated balance sheet as of that date. As of August 31, 2021, deferred payments of $56 million, of which $28 million are current and are reported as accrued salaries and benefits and $28 million are non-current and are reported as other long-term liabilities on the accompanying consolidated balance sheet as of that date. SHC recorded $18.5 million and $17 million of additional FEMA deferred revenue on the accompanying consolidated balance sheets as of August 31, 2022 and August 31, 2021, respectively.

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, 2022 and August 31, 2021. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes.

Under the CARES Act, SHC also received $397 million in advanced payments from CMS in fiscal year 2020. CMS had indicated that it would begin recouping these advance payments against future Medicare claims for services that are provided during the recoupment period. By August 31, 2021, $397 million in advance payments were recouped by CMS.

(in thousands of dollars)

15. Commitments and Contingencies (Continued)

Coronavirus Disease ("COVID-19") (continued)
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, 2022.

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 IT 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.

Non operating expenses include components of net periodic benefit costs and interest swap.

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

	2022			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 3,097,671	$ 245,898	$ 1,351	$ 3,344,920
Professional services	45,704	29,735	-	75,439
Supplies	1,001,614	7,990	-	1,009,604
Purchased services	1,512,171	72,533	14,136	1,598,840
Depreciation and amortization	252,056	18,290	-	270,346
Interest	71,940	-	-	71,940
Other	415,842	106,855	-	522,697
Expense recoveries to (from) related parties	1,270	(682)	-	588
Total operating expenses	6,398,268	480,619	15,487	6,894,374
Non operating expenses	22,667	-	-	22,667
Total	$ 6,420,935	$ 480,619	$ 15,487	$ 6,917,041

	2021			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,571,957	$ 240,173	$ 1,092	$ 2,813,222
Professional services	16,696	32,800	-	49,496
Supplies	960,520	8,024	-	968,544
Purchased services	1,436,942	63,901	12,795	1,513,638
Depreciation and amortization	267,791	21,472	-	289,263
Interest	76,900	3	-	76,903
Other	348,798	99,559	-	448,357
Expense recoveries from related parties	(49,417)	(1,142)	-	(50,559)
Total operating expenses	5,630,187	464,790	13,887	6,108,864
Non operating expenses	23,324	-	-	23,324
Total	$ 5,653,511	$ 464,790	$ 13,887	$ 6,132,188

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 6, 2022, the date the consolidated financial statements were issued.

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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 and its subsidiaries as of and for the years ended August 31, 2022 and 2021 and our report thereon appears on pages one and two of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information as of and for the year ended August 31, 2022 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, 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, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

San Francisco, California
December 6, 2022

Stanford Health Care
Consolidating Balance Sheet
August 31, 2022
(in thousands of dollars)

	FY2022										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	ERTS	Eliminations	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	$ 427,450	$ 35,120	$ 442	$ -	$ 35,288	$ 12,735	$ 10,869	$ -	$ 14,899	$ -	$ 536,803
Short term investments	72,009	-	-	-	-	-	-	-	-	-	72,009
Patient accounts receivables, net	942,830	27,493	50,605	-	-	2,640	-	-	-	-	1,023,568
Other receivables	60,927	14,620	4,374	2,452	23,877	736	8,410	206	3,598	(3,997)	115,203
Inventories	96,740	782	8,401	1,801	-	-	-	-	26	-	107,750
Prepaid expenses and other	109,596	15,202	9,157	365	277	492	1,030	90	43	(36)	136,216
Due from related parties	23,850	6,978	2,342	61,125	108	-	-	18	-	(94,421)	-
Total current assets	1,733,402	100,195	75,321	65,743	59,550	16,603	20,309	314	18,566	(98,454)	1,991,549
Investments	1,755,069	-	5,805	-	59,255	-	7,465	-	-	-	1,827,594
Investments at equity	159,427	-	7,262	-	-	-	-	-	-	-	166,689
Investments in University managed pools	2,435,606	-	-	-	68,482	-	-	-	-	-	2,504,088
Property and equipment, net	3,432,558	31,686	249,959	3,950	-	3,590	-	12	3,733	-	3,725,488
Right of use lease assets	202,821	47,479	30,416	8,111	-	184	-	523	1,991	(43,953)	247,572
Other assets	98,434	1,201	3,537	-	-	-	303	17	-	(51,921)	51,571
Investments in related entities	670,278	3,421	-	-	-	-	-	-	-	(673,699)	-
Total assets	$ 10,487,595	$ 183,982	$ 372,300	$ 77,804	$ 187,287	$ 20,377	$ 28,077	$ 866	$ 24,290	$ (868,027)	$ 10,514,551
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued liabilities	$ 555,783	$ 25,607	$ 34,908	$ 2,810	$ 725	$ 968	$ 2,413	$ 53	$ 4	$ (39)	$ 623,232
Accrued salaries and related benefits	414,167	46,314	21,753	(234)	-	-	-	73	-	-	482,073
Due to related parties	145,077	-	10,675	2,271	875	307	108	3,653	469	(94,421)	69,014
Third-party payor settlements	63,361	-	(37)	-	-	-	-	-	-	-	63,324
Current portion of long-term debt	17,065	-	3,994	-	-	-	-	-	-	(3,994)	17,065
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200
Operating lease liabilities, current	60,177	13,883	7,309	3,360	-	185	-	267	315	(11,754)	73,742
Self-insurance reserves and other	61,922	2,549	2,476	269	30,184	-	-	-	-	-	97,400
Total current liabilities	1,485,752	88,353	81,078	8,476	31,784	1,460	2,521	4,046	788	(110,208)	1,594,050
Self-insurance reserves and other, net of current portion	133,379	-	4,465	92	62,467	-	19,052	-	-	-	219,455
Swap liabilities	145,906	-	-	-	-	-	-	-	-	-	145,906
Operating lease liabilities, non-current	154,863	35,352	23,877	5,098	-	-	-	280	1,686	(33,564)	187,592
Other long-term liabilities	131,510	218	56,093	(70)	-	-	-	-	-	(50,556)	137,195
Pension liability	2,423	-	-	-	-	-	-	-	-	-	2,423
Long-term debt, net of current portion	2,110,072	-	-	-	-	-	-	-	-	-	2,110,072
Total liabilities	4,163,905	123,923	165,513	13,596	94,251	1,460	21,573	4,326	2,474	(194,328)	4,396,693
Net assets:											
Without donor restrictions:											
Attributable to Stanford Health Care	6,182,657	60,059	202,660	64,208	74,135	11,350	3,421	(3,460)	12,710	(673,637)	5,934,103
Noncontrolling interests	-	-	-	-	18,901	7,567	3,083	-	9,106	-	38,657
Total without donor restrictions	6,182,657	60,059	202,660	64,208	93,036	18,917	6,504	(3,460)	21,816	(673,637)	5,972,760
With donor restrictions	141,033	-	4,127	-	-	-	-	-	-	(62)	145,098
Total net assets	6,323,690	60,059	206,787	64,208	93,036	18,917	6,504	(3,460)	21,816	(673,699)	6,117,858
Total liabilities and net assets	$ 10,487,595	$ 183,982	$ 372,300	$ 77,804	$ 187,287	$ 20,377	$ 28,077	$ 866	$ 24,290	$ (868,027)	$ 10,514,551

The accompanying note is an integral part of the accompanying consolidating information.

Stanford Health Care
Consolidating Balance Sheet
August 31, 2021
(in thousands of dollars)

	FY2021										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	$ 323,001	$ 35,008	$ 472	$ -	$ 31,216	$ 9,397	$ 7,950	$ -	$ -	$ -	$ 407,044
Short term investments	74,888	-	-	-	-	-	-	-	-	-	74,888
Patient accounts receivables, net	696,541	26,777	39,410	-	-	2,220	-	-	-	-	764,948
Other receivables	106,876	14,524	2,494	1,456	22,053	1,490	9,046	55	-	(1,826)	156,168
Inventories	103,720	771	7,359	1,571	-	-	-	-	-	-	113,421
Prepaid expenses and other	106,761	13,537	11,067	368	144	501	887	92	-	(29)	133,328
Due from related parties	13,597	4,933	69,655	47,803	43	-	-	8	-	(136,039)	-
Total current assets	1,425,384	95,550	130,457	51,198	53,456	13,608	17,883	155	-	(137,894)	1,649,797
Investments	1,982,444	-	5,593	-	62,954	-	7,934	-	-	-	2,058,925
Investments at equity	126,947	-	7,281	-	-	-	-	-	-	-	134,228
Investments in University managed pools	2,458,322	-	-	-	70,605	-	-	-	-	-	2,528,927
Property and equipment, net	3,399,734	35,247	176,765	4,925	-	2,750	-	30	-	-	3,619,451
Right of use lease assets	249,884	42,751	25,226	11,447	-	914	-	777	-	(38,411)	292,588
Other assets	111,805	1,638	3,792	-	-	42	128	17	-	(55,915)	61,507
Investments in related entities	573,638	4,056	-	-	-	-	-	-	-	(577,694)	-
Total assets	$ 10,328,158	$ 179,242	$ 349,114	$ 67,570	$ 187,015	$ 17,314	$ 25,945	$ 979	$ -	$ (809,914)	$ 10,345,423
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued liabilities	$ 547,749	$ 22,281	$ 32,109	$ 4,293	$ 623	$ 56	$ 1,891	$ 51	$ -	$ (32)	$ 609,021
Accrued salaries and related benefits	333,559	42,530	19,706	(234)	-	-	-	76	-	-	395,637
Due to related parties	187,675	-	7,517	1,718	678	365	43	2,106	-	(136,039)	64,063
Third-party payor settlements	56,229	-	(570)	-	-	-	-	-	-	-	55,659
Current portion of long-term debt	15,505	-	1,823	-	-	-	-	-	-	(1,823)	15,505
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200
Operating lease liabilities, current	63,795	13,473	7,633	3,309	-	732	-	254	-	(10,141)	79,055
Self-insurance reserves and other	42,800	2,333	3,026	831	26,310	-	-	-	-	-	75,300
Total current liabilities	1,415,512	80,617	71,244	9,917	27,611	1,153	1,934	2,487	-	(148,035)	1,462,440
Self-insurance reserves and other, net of current portion	129,194	-	3,797	72	69,013	-	16,884	-	-	-	218,960
Swap liabilities	285,654	-	-	-	-	-	-	-	-	-	285,654
Operating lease liabilities, non-current	202,826	31,578	19,254	8,458	-	185	-	546	-	(29,603)	233,244
Other long-term liabilities	156,454	2,044	61,658	(15)	-	-	-	-	-	(54,582)	165,559
Long-term debt, net of current portion	2,135,075	-	-	-	-	-	-	-	-	-	2,135,075
Total liabilities	4,324,715	114,239	155,953	18,432	96,624	1,338	18,818	3,033	-	(232,220)	4,500,932
Net assets:											
Without donor restrictions:											
Attributable to Stanford Health Care	5,857,960	65,003	187,249	49,138	69,774	9,586	4,056	(2,054)	-	(577,632)	5,663,080
Noncontrolling interests	-	-	-	-	20,617	6,390	3,071	-	-	-	30,078
Total without donor restrictions	5,857,960	65,003	187,249	49,138	90,391	15,976	7,127	(2,054)	-	(577,632)	5,693,158
With donor restrictions	145,483	-	5,912	-	-	-	-	-	-	(62)	151,333
Total net assets	6,003,443	65,003	193,161	49,138	90,391	15,976	7,127	(2,054)	-	(577,694)	5,844,491
Total liabilities and net assets	$ 10,328,158	$ 179,242	$ 349,114	$ 67,570	$ 187,015	$ 17,314	$ 25,945	$ 979	$ -	$ (809,914)	$ 10,345,423

The accompanying note is an integral part of the accompanying consolidating information.

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2022
(in thousands of dollars)

	FY2022										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	ERTS	Eliminations	Consolidated
Operating revenues and other support:											
Net patient service revenue	$ 6,212,806	$ 303,015	$ 413,718	$ -	$ -	$ 10,202	$ -	$ -	$ -	$ (17,273)	$ 6,922,468
Premium revenue	3,235	72,075	-	-	-	-	-	-	-	-	75,310
Grants - COVID-19	197,212	1,873	4,180	-	-	-	-	-	-	-	203,265
FEMA	11,227	-	824	-	-	-	-	-	-	-	12,051
Other revenue	139,615	28,739	3,910	85,178	35,825	119	3,459	1,880	5,474	(111,846)	192,353
Net assets released from restrictions used for operations	6,985	-	35	-	-	-	-	-	-	-	7,020
Total operating revenues and other support	6,571,080	405,702	422,667	85,178	35,825	10,321	3,459	1,880	5,474	(129,119)	7,412,467
Operating expenses:											
Salaries and benefits	2,900,799	148,145	245,379	39,325	4,881	2,773	-	3,350	411	(143)	3,344,920
Professional services	60,697	9,514	3,822	22	996	1,241	590	57	-	(1,500)	75,439
Supplies	913,056	58,178	56,401	14,767	-	80	-	6	20	(32,904)	1,009,604
Purchased services	1,392,889	259,808	33,148	4,499	169	1,104	-	32	1,451	(94,260)	1,598,840
Depreciation and amortization	239,143	9,148	20,001	1,371	-	611	-	18	54	-	270,346
Interest	71,939	1	1,876	-	-	-	-	-	-	(1,876)	71,940
Other	426,332	36,583	49,077	10,124	21,369	1,571	2,910	514	433	(26,216)	522,697
Expense recoveries to (from) related parties	588	(25,080)	-	-	-	-	-	(691)	-	25,771	588
Total operating expenses	6,005,443	496,297	409,704	70,108	27,415	7,380	3,500	3,286	2,369	(131,128)	6,894,374
Income (loss) from operations	565,637	(90,595)	12,963	15,070	8,410	2,941	(41)	(1,406)	3,105	2,009	518,093
Interest and investment income	100,173	227	96	-	1,174	-	130	-	-	(1,876)	99,924
Earnings on equity method investments	35,895	-	293	-	-	-	-	-	-	-	36,188
Change in value of University managed pools and other	(368,228)	(371)	-	-	(6,939)	-	(579)	-	-	371	(375,746)
Swap interest and change in value of swap agreements	120,324	-	-	-	-	-	-	-	-	-	120,324
Other components of net periodic benefit costs	(3,243)	-	-	-	-	-	-	-	-	-	(3,243)
Excess (deficiency) of revenues over expenses	450,558	(90,739)	13,352	15,070	2,645	2,941	(490)	(1,406)	3,105	504	395,540
Other changes in net assets without donor restrictions:											
Transfers to Stanford University	(112,361)	-	-	-	-	-	-	-	-	-	(112,361)
Change in net unrealized (loss) gain on investments	(24,894)	1	-	-	-	-	-	-	-	(1)	(24,894)
Net assets released from restrictions used for:											
Purchase of property and equipment	150	-	2,059	-	-	-	-	-	-	-	2,209
Purchase of property and equipment - New Stanford Hospital	9,550	-	-	-	-	-	-	-	-	-	9,550
Change in pension and postretirement liability	1,694	-	-	-	-	-	-	-	-	-	1,694
Noncontrolling capital contribution (distribution), net	-	85,794	-	-	-	-	(133)	-	18,711	(96,508)	7,864
Increase (decrease) in net assets without donor restrictions	324,697	(4,944)	15,411	15,070	2,645	2,941	(623)	(1,406)	21,816	(96,005)	279,602
Changes in net assets with donor restrictions:											
Transfers from Stanford University	3,128	-	-	-	-	-	-	-	-	-	3,128
Contributions and other	8,869	-	309	-	-	-	-	-	-	-	9,178
Investment income	1,037	-	-	-	-	-	-	-	-	-	1,037
Losses on University managed pools	(799)	-	-	-	-	-	-	-	-	-	(799)
Net assets released from restrictions used for:											
Operations	(6,985)	-	(35)	-	-	-	-	-	-	-	(7,020)
Purchase of property and equipment	(150)	-	(2,059)	-	-	-	-	-	-	-	(2,209)
Purchase of property and equipment - New Stanford Hospital	(9,550)	-	-	-	-	-	-	-	-	-	(9,550)
Decrease in net assets with donor restrictions	(4,450)	-	(1,785)	-	-	-	-	-	-	-	(6,235)
Increase (decrease) in net assets	320,247	(4,944)	13,626	15,070	2,645	2,941	(623)	(1,406)	21,816	(96,005)	273,367
Net assets, beginning of year	6,003,443	65,003	193,161	49,138	90,391	15,976	7,127	(2,054)	-	(577,694)	5,844,491
Net assets, end of year	$ 6,323,690	$ 60,059	$ 206,787	$ 64,208	$ 93,036	$ 18,917	$ 6,504	$ (3,460)	$ 21,816	$ (673,699)	$ 6,117,858

The accompanying note is an integral part of the accompanying consolidating information.

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2021
(in thousands of dollars)

	FY2021										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Consolidated
Operating revenues and other support:											
Net patient service revenue	$ 5,439,074	$ 296,143	$ 347,184	$ -	$ -	$ 9,761	$ -	$ -	$ -	$ (40,114)	$ 6,052,048
Premium revenue	3,046	75,823	-	-	-	-	-	-	53,198	(13,326)	118,741
Grants - COVID-19	396,551	3,544	6,170	-	-	-	-	-	-	-	406,265
FEMA	4,202	-	-	-	-	-	-	-	-	-	4,202
Other revenue	142,233	25,257	3,560	77,438	34,971	97	2,487	2,166	-	(108,747)	179,462
Net assets released from restrictions used for operations	11,353	-	137	-	-	-	-	-	-	-	11,490
Total operating revenues and other support	5,996,459	400,767	357,051	77,438	34,971	9,858	2,487	2,166	53,198	(162,187)	6,772,208
Operating expenses:											
Salaries and benefits	2,415,370	140,769	207,319	38,005	5,374	2,433	-	3,415	681	(144)	2,813,222
Professional services	39,635	5,648	2,870	21	793	1,102	618	52	120	(1,363)	49,496
Supplies	871,333	56,878	49,185	15,581	2	97	-	5	5,748	(30,285)	968,544
Purchased services	1,280,855	252,153	34,975	5,054	403	1,127	-	37	73,924	(134,890)	1,513,638
Depreciation and amortization	259,445	10,175	17,725	1,375	-	525	-	18	-	-	289,263
Interest	76,766	2	2,062	3	-	-	-	-	-	(1,930)	76,903
Other	365,015	34,858	37,709	8,163	20,727	1,600	2,417	519	292	(22,943)	448,357
Expense recoveries from related parties	(50,559)	(26,263)	-	-	-	-	-	(709)	-	26,972	(50,559)
Total operating expenses	5,257,860	474,220	351,845	68,202	27,299	6,884	3,035	3,337	80,765	(164,583)	6,108,864
Income (loss) from operations	738,599	(73,453)	5,206	9,236	7,672	2,974	(548)	(1,171)	(27,567)	2,396	663,344
Interest and investment income	48,369	145	76	-	1,091	-	70	-	1	(1,930)	47,822
Earnings on equity method investments	41,327	-	269	-	-	-	-	-	-	-	41,596
Change in value of University managed pools and other	766,891	(26)	-	-	18,023	-	(50)	-	-	26	784,864
Swap interest and change in value of swap agreements	46,274	-	-	-	-	-	-	-	-	-	46,274
Other components of net periodic benefit costs	(1,960)	-	-	-	-	-	-	-	-	-	(1,960)
Loss on extinguishment of debt	(2,558)	-	-	-	-	-	-	-	-	-	(2,558)
Excess (deficiency) of revenues over expenses	1,636,942	(73,334)	5,551	9,236	26,786	2,974	(528)	(1,171)	(27,566)	492	1,579,382
Other changes in net assets without donor restrictions:											
Transfers to Stanford University	(100,386)	-	-	-	-	-	-	-	-	-	(100,386)
Transfers from Lucile Packard Children's Hospital	99	-	-	-	-	-	-	-	-	-	99
Transfers between SHC and SHC Tri-Valley	(16,793)	-	16,793	-	-	-	-	-	-	-	-
Change in net unrealized (loss) gain on investments	(2,406)	(1)	-	-	-	-	-	-	-	1	(2,406)
Net assets released from restrictions used for:											
Purchase of property and equipment	927	-	89	-	-	-	-	-	-	-	1,016
Purchase of property and equipment - New Stanford Hospital	18,224	-	-	-	-	-	-	-	-	-	18,224
Change in pension and postretirement liability	9,396	-	-	-	-	-	-	-	-	-	9,396
Noncontrolling capital contribution (distribution), net	-	106,150	-	-	(1,164)	(4,674)	-	-	28,600	(130,782)	(1,870)
(Loss) income from discontinued operations	(72,689)	-	-	-	715	-	-	-	(4,917)	72,689	(4,202)
Increase (decrease) in net assets without donor restrictions	1,473,314	32,815	22,433	9,236	26,337	(1,700)	(528)	(1,171)	(3,883)	(57,600)	1,499,253
Changes in net assets with donor restrictions:											
Transfers from Stanford University	1,353	-	-	-	-	-	-	-	-	-	1,353
Contributions and other	28,737	-	6,123	-	-	-	-	-	-	-	34,860
Investment income	880	-	-	-	-	-	-	-	-	-	880
Gains on University managed pools	11,427	-	-	-	-	-	-	-	-	-	11,427
Net assets released from restrictions used for:											
Operations	(11,353)	-	(137)	-	-	-	-	-	-	-	(11,490)
Purchase of property and equipment	(927)	-	(89)	-	-	-	-	-	-	-	(1,016)
Purchase of property and equipment - New Stanford Hospital	(18,224)	-	-	-	-	-	-	-	-	-	(18,224)
Increase in net assets with donor restrictions	11,893	-	5,897	-	-	-	-	-	-	-	17,790
Increase (decrease) in net assets	1,485,207	32,815	28,330	9,236	26,337	(1,700)	(528)	(1,171)	(3,883)	(57,600)	1,517,043
Net assets, beginning 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
Net assets, end of year	$ 6,003,443	$ 65,003	$ 193,161	$ 49,138	$ 90,391	$ 15,976	$ 7,127	$ (2,054)	$ -	$ (577,694)	$ 5,844,491

The accompanying note is an integral part of the accompanying consolidating information.

Stanford Health Care
Note to Accompanying Consolidating Information
August 31, 2022 and 2021
(in thousands of dollars)

Accompanying Consolidating Information

The accompanying consolidating information presents Consolidating Balance Sheets as of August 31, 2022 and 2021 and Consolidating Statements of Operations and Changes in Net Assets for the years then ended.

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 consolidating 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-1
FORM OF MASTER INDENTURE

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Second Amended and Restated Master Indenture of Trust

Between

Stanford Health Care

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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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.

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

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.

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

   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 California Health Facilities

[*] 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
		Financing Authority (“CHFFA”) and Wells Fargo
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. 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
7.	Obligation No. 35, issued in the original principal amount of $100,000,000	U.S. Bank National Association ("USB"), as trustee under the Indenture, dated as of June 1, 2015, between CHFFA and USB
8.	Obligation No. 39, issued in the original principal amount of $454,200,000	The Bank of New York Mellon Trust Company, N.A. ("BNY"), as trustee under the Indenture, dated as of December 1, 2017, between CHFFA and BNY
9.	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
10.	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
11.	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
12.	Obligation No. 43, issued in the original principal amount of $157,715,000	USB, as trustee under the Indenture dated as of April 1, 2021 between CHFFA and USB
13.	Obligation No. 44, issued in the original principal amount of $365,100,000	USB, as trustee under the Indenture, dated as of April 1, 2021, between Stanford Health Care and USB
14.	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
15.	Obligation No. 46, issued in the original principal amount of $[260,545,000]	U.S. Bank Trust Company, National Association ("U.S. Bank"), as trustee under the Indenture, dated as of September 1, 2023 between CHFFA and U.S. Bank
16.	Obligation No. 48, issued in the original principal amount of up to [$200,000,000]	U.S. Bank, as Issuing and Paying Agent under the Issuing and Paying Agent Agreement dated as of September 1, 2023, among Stanford Health Care, U.S. Bank, and CHFFA

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.

APPENDIX C-2

FORM OF SUPPLEMENT NO. 46

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APPENDIX C-2

FORM OF SUPPLEMENT NO. 46

The following is a form of Supplemental Master Indenture for Obligation No. 46, dated as of September 1, 2023 ("Supplement No. 46"), between the Corporation and the Master Trustee, which is expected to be entered into in connection the issuance of the Bonds described in the forepart hereof. Supplement No. 46 will supplement the Prior Master Indenture (as defined in the forepart hereof) in accordance with the terms and provisions of the Prior Master Indenture. Concurrent with the issuance of the Bonds, the Prior Master Indenture is being amended and restated by the New Master Indenture (as defined in the forepart hereof). For more information, please see "INTRODUCTORY STATEMENT – Security for the Bonds" and "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—The Master Indenture" in the forepart hereof.

SUPPLEMENTAL MASTER INDENTURE
FOR OBLIGATION NO. 46

STANFORD HEALTH CARE

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Master Trustee

Dated as of September 1, 2023

Supplementing
the
Amended and Restated Master Indenture of Trust
Dated as of June 1, 2011

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THIS SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION No. 46, dated as of September 1, 2023 (this "Supplement No. 46"), 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, as master trustee (the "Master Trustee"),

W I T N E S S E T H:

WHEREAS, the Corporation and the Master Trustee, entered into the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (as from time to time supplemented, amended and/or restated pursuant to its terms, the "Master Indenture");

WHEREAS, the Master Indenture provides for the issuance by the Corporation, acting on behalf of itself and as Obligated Group Representative, of obligations thereunder upon the Corporation's and the Master Trustee's entering into an indenture supplemental to the Master Indenture;

WHEREAS, the Corporation, acting as Obligated Group Representative, desires to issue an obligation ("Obligation No. 46") hereunder to evidence the obligation of the Corporation (and each other Member that is added from time to time to the Obligated Group established pursuant to the Master Indenture) with respect to the obligations of the Corporation arising under and pursuant to a Loan Agreement, dated as of September 1, 2023 (the "Loan Agreement"), between the California Health Facilities Financing Authority (the "Authority") and the Corporation, with respect to the California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A (the "Bonds");

WHEREAS, the Corporation, acting as Obligated Group Representative, hereby certifies that all acts and things necessary to constitute this Supplement No. 46 a valid indenture and agreement according to its terms have been done and performed, and the Corporation has duly authorized the execution and delivery hereof and of Obligation No. 46 issued 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 Obligation No. 46 issued hereunder by the holder thereof (the "Holder"), the Corporation, acting as Obligated Group Representative, covenants and agrees with the Master Trustee for the benefit of the Holder from time to time of Obligation No. 46 issued hereby as follows:

Section 1. Definitions. Unless otherwise required by the context, all terms used herein that are defined in the Master Indenture shall have the meanings assigned to them therein, except as set forth below:

"**Authority**" means the California Health Facilities Financing Authority or its successor.

"**Bonds**" means the California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A.

"**Indenture**" means that certain Indenture, dated as of September 1, 2023, between the Authority and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

"**Loan Agreement**" means that certain Loan Agreement, dated as of September 1, 2023, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"**Obligation No. 46**" means the Obligation issued pursuant to the Master Indenture, as supplemented by this Supplement No. 46.

"**Official Statement**" means the Official Statement relating to the Bonds, dated September 12, 2023.

"**Supplement No. 46**" means this Supplemental Master Indenture for Obligation No. 46.

"**Trustee**" means U.S. Bank Trust Company, National Association, a national banking association organized and existing under the laws of the United States, and any successor to its duties under the Indenture.

"**United States Government Obligations**" means the United States Government Obligations as specified in the definition thereof set forth in Section 1.01 of the Indenture.

Section 2. Issuance of Obligation No. 46; Maturity or Expiration of Term of Obligation No. 46. There is hereby created and authorized to be issued an Obligation in an aggregate principal amount of $260,545,000. This Obligation shall be dated September 27, 2023, shall be designated "Stanford Health Care Obligation No. 46" and shall be payable in such amounts, at such times and in such manner and shall have such other terms and provisions as are set forth in the form of Obligation No. 46 as provided in Section 11 hereof.

The aggregate principal amount of Obligation No. 46 is limited to $260,545,000, except for any Obligation No. 46 authenticated and delivered in lieu of another Obligation No. 46 as provided in Section 6 hereof, upon mutilation, destruction, loss or theft of Obligation No. 46, or, subject to the provisions of Section 9 hereof, upon transfer of registration of Obligation No. 46 as provided in Section 5 hereof.

Upon the final maturity of the Bonds or payment by the Corporation of a sum, in cash or United States Government Obligations, or both, sufficient, together with any other cash and United States Government Obligations held by the Trustee and available for such purpose, to cause all outstanding Bonds to be deemed to have been paid within the meaning of Article X of the Indenture and to pay all other amounts referred to in Article X of the Indenture, accrued and

to be accrued to the date of discharge of the Indenture, Obligation No. 46 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture.

Section 3. Payments on Obligation No. 46; Credits.

(a) Principal of and interest on Obligation No. 46 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Except as provided in subsection (b) of this Section with respect to credits, and Section 4 hereof regarding prepayment, payments on the principal of and interest on Obligation No. 46 shall be made at the times and in the amounts specified in Obligation No. 46 by the Corporation 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 in the amounts required to be paid by the Corporation with respect to the Bonds pursuant to Section 3.1 of the Loan Agreement.

(b) The Members shall receive credit for payment on Obligation No. 46, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 46 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. 46;

(ii) On installments of principal of Obligation No. 46 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. 46;

(iii) On installments of principal and interest, respectively, on Obligation No. 46 in an amount equal to the principal amount of Bonds for the payment or redemption of which sufficient amounts (as determined by Section 10.03 of the Indenture) in cash or United States Government Obligations are on deposit as provided in Section 10.03 of the Indenture, to the extent such amounts have not been previously credited against payments on Obligation No. 46, 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. 46 that would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity or called for redemption; and

(iv) On installments of principal and interest, respectively, on Obligation No. 46 in an amount equal to the principal amount of Bonds acquired by the Corporation and delivered to the Trustee for cancellation or purchased by the Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 46 that would have been used, but for such cancellation, to pay principal of and interest

on such Bonds when due and, with respect to Bonds called for mandatory redemption, against principal installments that would have been used to pay Bonds of the same maturity.

(c) All amounts required to be paid by the Corporation pursuant to Sections 3.2 and 5.4 of the Loan Agreement shall be paid by the Members on Obligation No. 46 at such times and in such amounts as are required to be paid by the Corporation pursuant to the Loan Agreement. The Members shall receive credit for payment pursuant to this subsection (c) in an amount equal to moneys paid to the Authority, the Trustee or such other party as may be specified in the Loan Agreement by the Corporation pursuant to the Loan Agreement.

(d) All amounts required to be paid by the Corporation pursuant to Section 3.5 of the Loan Agreement for the purpose of paying the Purchase Price of the Bonds tendered for optional or mandatory purchase pursuant to the Indenture shall be paid by the Members on Obligation No. 46 at such times and in such amounts as are required to be paid by the Corporation pursuant to Section 3.5 of the Loan Agreement. The Members shall receive credit for payment pursuant to this subsection (d) in an amount equal to moneys deposited with the Trustee by the Corporation pursuant to Section 3.5 of the Loan Agreement.

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. 46, the Master Trustee may conclusively assume that such payments were made and corresponding credit on Obligation No. 46 shall be deemed to have occurred.

Section 4. Prepayment of Obligation No. 46.

(a) So long as all amounts that have become due under Obligation No. 46 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. 46. Prepayments may be made by payments of cash or surrender of Bonds, as contemplated by Section 3(b)(iii) and Section 3(b)(iv) hereof. 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. 46 or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Indenture and Section 3.4 of the Loan Agreement. Notwithstanding any such redemption or surrender of Bonds, as long as any Bond remains outstanding under the Indenture or any additional payments required to be made hereunder remain unpaid, the Corporation shall not be relieved of its obligations hereunder.

(b) Prepayments made under subsection (a) of this Section shall be credited against amounts to become due on Obligation No. 46 as provided in Section 3 hereof and Section 3.4 of the Loan Agreement.

(c) The Corporation may also prepay all of its indebtedness under Obligation No. 46 by providing for prepayment of the Bonds in accordance with Article X of the Indenture.

Section 5. Registration, Number, Negotiability and Transfer of Obligation No. 46.

(a) Except as provided in subsection (b) of this Section, so long as any Bond remains outstanding under the Indenture, Obligation No. 46 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. 46 shall be registered under the Master Indenture except for transfers to a successor Trustee.

(b) 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. 46 may be transferred if and to the extent the Trustee requests that the restrictions of subsection (a) of this Section on transfers be terminated.

Section 6. Mutilation, Destruction, Loss and Theft of Obligation No. 46. If (i) Obligation No. 46 is surrendered to the Master Trustee in a mutilated condition, or the Corporation and the Master Trustee receive evidence to their satisfaction of the destruction, loss or theft of Obligation No. 46, and (ii) there is delivered to the Corporation and the Master Trustee such security or indemnity as may be required by them to hold them harmless, then, in the absence of proof satisfactory to the Corporation and the Master Trustee that Obligation No. 46 has been acquired by a bona fide purchaser and upon the Holder's paying the reasonable expenses of the Corporation and the Master Trustee, the Corporation shall cause to be executed and the Master Trustee shall authenticate and deliver, in exchange for such mutilated Obligation No. 46 or in lieu of such destroyed, lost or stolen Obligation No. 46, a new Obligation No. 46 of like principal amount, date and tenor. If any such mutilated, destroyed, lost or stolen Obligation No. 46 has become or is about to become due and payable, Obligation No. 46 may be paid when due instead of delivering a new Obligation No. 46.

Section 7. Execution and Authentication of Obligation No. 46. Obligation No. 46 shall be executed for and on behalf of the Corporation by its Chief Financial Officer. The signature of such officer may be mechanically or photographically reproduced on Obligation No. 46. If any officer whose signature appears on Obligation No. 46 ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Obligation No. 46 shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication Obligation No. 46 shall not be entitled to the benefits hereof.

Section 8. Right to Redeem. Obligation No. 46 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 herein; provided that in no event shall any portion of Obligation No. 46 be redeemed unless a corresponding amount of Bonds is also redeemed.

Section 9. Partial Redemption of Obligation No. 46. Upon the selection and call for redemption, and the surrender, of Obligation No. 46 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. 46 in principal amount equal to the unredeemed portion of Obligation No. 46, which new Obligation No. 46 shall be a fully registered Obligation without coupons.

The Corporation may agree with the Holder of Obligation No. 46 that such Holder may, in lieu of surrendering Obligation No. 46 for a new fully registered Obligation without coupons, endorse on Obligation No. 46 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. 46 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. 46 by the Holder thereof and irrespective of any error or omission in such endorsement.

Section 10. Effect of Call for Redemption. On the date designated for redemption by notice given as herein provided, Obligation No. 46, or the part thereof called for redemption, shall become and be due and payable at the redemption price provided for redemption of Obligation No. 46 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. 46, or the part thereof called for redemption, shall cease to accrue and Obligation No. 46, 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. 46 so called for redemption shall be deemed paid and no longer outstanding.

Section 11. Form of Obligation No. 46. Obligation No. 46 shall be in substantially the following form with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby or by the Master Indenture and are approved by the officer executing such Obligation on behalf of the Corporation, acting as Obligated Group Representative, and execution thereof by such officer shall constitute conclusive evidence of such approval.

[Form of Obligation No. 46]

STANFORD HEALTH CARE OBLIGATION NO. 46

$260,545,000

Dated: September 27, 2023

KNOW ALL BY THESE PRESENTS that STANFORD HEALTH CARE, formerly known as Stanford Hospital and Clinics (the "Corporation"), a nonprofit public benefit corporation organized and existing under the laws of the State of California, for value received hereby acknowledges itself and each other Member of the Obligated Group (as such terms are defined in the hereinafter defined Master Indenture) obligated to, and promises to pay to U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), under the Indenture, dated as of September 1, 2023 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority"), and the Trustee, and any successor trustee under the

Indenture, or registered assigns, the principal sum of $260,545,000, and to pay interest on the unpaid balance of said sum from the date hereof on the dates and in the manner hereinafter described. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Master Indenture or if not defined in the Master Indenture, shall have the meanings assigned to such terms in the Indenture.

This Obligation No. 46 is a single Obligation (as such term is defined in the Master Indenture) of the Obligated Group limited to $260,545,000 in principal amount (except as provided in the Master Indenture), designated as "Stanford Health Care Obligation No. 46" ("Obligation No. 46"), issued under and pursuant to the Supplemental Master Indenture for Obligation No. 46, dated as of September 1, 2023 (the "Supplemental Master Indenture"), between the Corporation, as Obligated Group Representative, and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), supplementing and amending the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (the "Master Indenture of Trust"). The Master Indenture of Trust, as heretofore and hereafter supplemented, amended and/or restated in accordance with its terms, is hereinafter called the "Master Indenture."

Principal hereof and interest hereon are payable, in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Payments of the principal of and interest on Obligation No. 46 shall be made by the Corporation 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 in the amounts required to be paid by the Corporation with respect to the Bonds pursuant to Section 3.1 of the Loan Agreement, dated as of September 1, 2023 (the "Loan Agreement"), between the Authority and the Corporation.

The Members of the Obligated Group shall receive credit for payment on Obligation No. 46, in addition to any credits resulting from payment or prepayment from other sources, as follows: (i) on installments of interest of Obligation No. 46 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. 46; (ii) on installments of principal of Obligation No. 46 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 against payments on Obligation No. 46; (iii) on installments of principal and interest, respectively, on Obligation No. 46 in an amount equal to the principal amount of Bonds for the payment or redemption of which sufficient amounts (as determined by Section 10.03 of the Indenture) in cash or United States Government Obligations are on deposit as provided in Section 10.03 of the Indenture, to the extent such amounts have not been previously credited against payments on Obligation No. 46, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof; provided, however, that such credits shall be made against the installments of principal of and interest on Obligation No. 46 that would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity or called for redemption; and (iv) on installments of principal and interest, respectively, on Obligation No. 46 in an amount equal to the principal amount of Bonds acquired by the Corporation and delivered to the Trustee for cancellation or purchased by the Trustee and

cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation; provided, however, that such credits shall be made against the installments of principal of and interest on Obligation No. 46 that would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due and, with respect to Bonds called for mandatory redemption, against principal installments that would have been used to pay Bonds of the same maturity.

All amounts required to be paid by the Corporation pursuant to Sections 3.2 and 5.4 of the Loan Agreement shall be paid by the Members on Obligation No. 46 at such times and in such amounts as are required to be paid by the Corporation pursuant to the Loan Agreement. The Members shall receive credit for such payments in an amount equal to moneys paid to the Authority, the Trustee or such other party as may be specified in the Loan Agreement by the Corporation pursuant to the Loan Agreement.

All amounts required to be paid by the Corporation pursuant to Section 3.5 of the Loan Agreement for the purpose of paying the Purchase Price of the Bonds tendered for optional or mandatory purchase pursuant to the Indenture shall be paid by the Members on Obligation No. 46 at such times and in such amounts as are required to be paid by the Corporation pursuant to Section 3.5 of the Loan Agreement. The Members shall receive credit for such payment in an amount equal to moneys deposited with the Trustee by the Corporation pursuant to Section 3.5 of the Loan Agreement.

Upon payment by the Corporation of a sum, in cash or United States Government Obligations, or both, sufficient, together with any other cash and United States Government Obligations held by the Trustee and available for such purpose, to cause all outstanding Bonds to be deemed to have been paid within the meaning of Article X of the Indenture and to pay all other amounts referred to in Article X of the Indenture, accrued and to be accrued to the date of discharge of the Indenture, Obligation No. 46 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture.

Copies of the Master Indenture and the Supplemental Master Indenture are on file at the corporate trust office of the Master Trustee, in Los Angeles, California. Reference is hereby made to the Master Indenture for the provisions, among others, with respect to the nature and extent of the rights of the Holders of Obligations issued under the Master Indenture, the terms and conditions upon which, and the purposes for which Obligations are to be issued and the rights, duties and obligations of the Corporation and the Master Trustee under the Master Indenture. The Holder hereof, by acceptance of this Obligation No. 46, assents to all of the provisions of the Master Indenture.

The Master Indenture permits the issuance of additional Obligations under the Master Indenture to be secured by the provisions of the Master Indenture, all of which, regardless of the times of issue or maturity, are to be of equal rank without preference, priority or distinction of any Obligations issued under the Master Indenture over any other such Obligations except as expressly provided or permitted in the Master Indenture.

In addition, the Holder by acceptance of this Obligation No. 46 hereby agrees to consent to amendment of the percentages specified in the provisions of the Master Indenture relating to events of default, acceleration, annulment of acceleration, and additional remedies and enforcement of remedies as set forth in Section 4.14 of the Master Indenture, a copy of which has been provided to the Holder.

In addition, the Holder by acceptance of this Obligation No. 46 hereby agrees to consent to the amendment and restatement of the Master Indenture as set forth in the Second Amended and Restated Master Indenture of Trust (the "Second Amended and Restated Master Indenture"), between the Corporation and the Master Trustee, a copy of which is attached as Appendix C-1 to the Official Statement relating to the Bonds, dated September 12, 2023, and has been received by the Holder.

This Obligation No. 46 may be replaced with a properly executed obligation issued under a replacement master indenture, pursuant to the terms and conditions set forth in the Indenture.

To the extent permitted by and as provided in the Master Indenture, modifications of or changes to the Master Indenture, of any indenture supplemental thereto, and of the rights and obligations of the Corporation and of the Holders of Obligations in any particular may be made by the execution and delivery of an indenture or indentures supplemental to the Master Indenture or any supplemental indenture. Certain modifications or changes that would affect the rights of the Holders of this Obligation No. 46 may be made only with the consent of the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding under the Master Indenture. No modification or change shall be made that will: (i) 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 of 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.

Any such consent by the Holder of this Obligation No. 46 shall be conclusive and binding upon such Holder and all future Holders and owners hereof irrespective of whether or not any notation of such consent is made upon this Obligation No. 46.

In the manner and with the effect provided in the Supplemental Master Indenture, Obligation No. 46 will be subject to redemption prior to maturity at the times and in the amounts specified in the Bonds issued under the Indenture.

Any redemption, either in whole or in part, shall be made upon notice thereof in the manner and upon the terms and conditions provided in the Supplemental Master Indenture. If this Obligation No. 46 shall have been duly called for redemption, either in whole or in part,

and payment of the redemption price, together with interest accrued thereon to the date fixed for redemption, shall have been made or provided for, as more fully set forth in the Supplemental Master Indenture, interest on this Obligation No. 46, or the portion hereof called for redemption, shall cease to accrue from the date fixed for redemption, and from and after such date, this Obligation No. 46, or the portion hereof called for redemption, shall be deemed not to be Outstanding and shall no longer be entitled to the benefits of the Master Indenture, and the Holder hereof shall have no rights in respect of this Obligation No. 46 other than payment of the redemption price, together with accrued interest to the date fixed for redemption.

Upon the occurrence of certain Events of Default, the principal of all Obligations then Outstanding may be declared, and thereupon shall become, due and payable as provided in the Master Indenture.

The Holder of this Obligation No. 46 shall have no right to enforce the provisions of the Master Indenture, or to institute any action to enforce the covenants therein, or to take any action with respect to any default under the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect to any default the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Master Indenture.

Obligation No. 46 is issuable only as a registered Obligation without coupons.

Unless the principal of all Obligations has been declared immediately due and payable, no transfer of this Obligation No. 46 shall be permitted except for transfers to a successor trustee under the Indenture. This Obligation No. 46 shall be registered on the register to be maintained by the Master Trustee as registrar for the Members of the Obligated Group for that purpose at the principal corporate trust office of the Master Trustee and this Obligation No. 46 shall be transferable only upon presentation of this Obligation No. 46 at said office by the Holder or by his duly authorized attorney and subject to the limitations, if any, set forth in the Supplemental Master Indenture. Such transfer shall be without charge to the Holder hereof, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder requesting such transfer as a condition precedent to the exercise of such privilege. Upon any such transfer, the Corporation, as Obligated Group Representative, shall execute and the Master Trustee shall authenticate and deliver in exchange for this Obligation No. 46 a new registered Obligation without coupons, registered in the name of the transferee.

Prior to due presentment hereof for registration of transfer, the Corporation, the Master Trustee, any paying agent and any registrar with respect to this Obligation No. 46 may deem and treat the person in whose name this Obligation No. 46 is registered as the absolute owner hereof for all purposes; and neither the Corporation, any paying agent, the Master Trustee nor any Obligation registrar shall be affected by any notice to the contrary. All payments made to the Holder hereof shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable on this Obligation No. 46.

No covenant or agreement contained in this Obligation No. 46 or the Master Indenture shall be deemed to be a covenant or agreement of any officer, agent or employee of the

Corporation or of the Master Trustee in such person's individual capacity, and no officer, agent or employee of the Corporation or member of the governing board of the Corporation shall be liable personally on this Obligation No. 46 or be subject to any personal liability or accountability by reason of the issuance of this Obligation No. 46.

This Obligation No. 46 shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Obligation No. 46 shall have been manually authenticated by the execution by an authorized officer of the Master Trustee, or its successor as Master Trustee, of the Certificate of Authentication inscribed hereon.

IN WITNESS WHEREOF, the Corporation, as Obligated Group Representative, has caused this Obligation No. 46 to be executed in its name and on its behalf by the manual or facsimile signature of its Chief Financial Officer as of the date set forth above.

STANFORD HEALTH CARE

By: _____
Chief Financial Officer

MASTER TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The undersigned Master Trustee hereby certifies that this Obligation No. 46 is one of the Obligations described in the within-mentioned Master Indenture.

Dated: _____

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Master Trustee

By: _____
Authorized Officer

Section 12. Specification of Purpose of Issue. The proceeds from the execution and delivery of the Bonds under the Indenture shall be used for the purposes described in the Indenture.

Section 13. Tax-Exempt Status. Each Member of the Obligated Group that is a tax-exempt organization at the time it becomes a Member of the Obligated Group, respectively, hereby covenants that so long as all amounts due or to become due on any Bonds have not been fully paid to the owner thereof, it will not take any action or suffer any action to be taken by others, including any action that would result in the alteration or loss of its status as a tax-exempt organization or that would cause interest on the Bonds to become includable in gross income under the Internal Revenue Code of 1986.

Section 14. Ratification of Master Indenture; Agreement to Consent to Amendment of Percentages Specified in Events of Default; Acceleration; Annulment of Acceleration; and Additional Remedies and Enforcement of Remedies; and Agreement to

Execute Second Amended and Restated Master Indenture of Trust. As supplemented hereby, the Master Indenture is in all respects ratified and confirmed and the Master Indenture as so supplemented hereby shall be read, taken and construed as one and the same instrument.

The Master Trustee acknowledges that the Corporation has proposed to amend the percentages specified in Section 4.01(b), Section 4.02(a) and 4.03(a) of the Master Indenture as set forth in Section 4.14 of the Master Indenture. The Master Trustee further acknowledges: (i) that the purchasers, beneficial owners and all subsequent holders thereof of the Bonds, by their purchase of the Bonds, have been deemed to consent to the amendments described above (hereinafter referred to as the "Percentage Amendments"); and (ii) that pursuant to such deemed consent the Trustee as Holder of Obligation No. 46 by acceptance of Obligation No. 46 has agreed to consent to the Percentage Amendments when the Corporation shall request such consent from the Trustee pursuant to Section 6.02(b) of 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. 46 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 Section 6.02(b) of the Master Indenture.

The Master Trustee further acknowledges that that 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 C-1 to the Official Statement. The Master Trustee further acknowledges: (i) that the purchasers, beneficial owners and all subsequent holders thereof 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; and (ii) that pursuant to such deemed consent the Trustee as Holder of Obligation No. 46 by acceptance of Obligation No. 46 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. In such event and based on the foregoing, the Master Trustee hereby agrees to accept such consent and to execute the Second Amended and Restated Master Indenture upon satisfaction of all requirements specified in Section 6.02(b) of the Master Indenture.

Section 15. Severability. If any provision of this Supplement No. 46 shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case and in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases, because it conflicts with any other provision or provisions hereof or any constitution, statute, rule or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses, sections or subsections contained in this Supplement No. 46 shall not affect the remaining portions of this Supplement No. 46 or any part thereof.

Section 16. Counterparts. This Supplement No. 46 may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Section 17. Governing Law. This Supplement No. 46 shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Corporation, as Obligated Group Representative, has caused these presents to be signed in its name and on its behalf by its duly authorized representative, and, to evidence its acceptance of the trusts hereby created, the Master Trustee has caused these presents to be signed in its name and on its behalf by its duly authorized representative, all as of the day and year first above written.

STANFORD HEALTH CARE

By: _____
Chief Financial Officer

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Master Trustee

By: _____
Authorized Officer

APPENDIX D

SUMMARY OF INDENTURE AND LOAN AGREEMENT

The following is a summary of certain provisions the Indenture and the Loan Agreement (as each are defined herein). This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement and is qualified in its entirety by reference to the full terms of the Indenture and the Loan Agreement. All capitalized terms used and not otherwise defined in this Official Statement have the meanings assigned to such terms in the Indenture.

This summary describes the provisions of the Bonds only while the Bonds bear interest during the Initial Fixed Period (defined herein). Should the Bonds be converted to bear interest in a different Interest Rate Period in accordance with the terms of the Indenture, it is expected that a disclosure document would be prepared for the remarketing of the Bonds. For purposes of this summary, any reference to "Series" or "Series of Bonds" will refer to the Bonds.

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

Authorized Representative means, with respect to the Authority, its Chairperson (or any Deputy), Executive Director, or any other Person or Persons designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chairperson (or any Deputy), or Executive Director, and with respect to the Corporation, the Chair or Vice Chair of its governing body, its chief executive officer, its chief operating officer, its chief financial officer, or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation signed by its chief executive officer, its chief operating officer or its chief financial officer and filed with the Trustee.

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

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

Bond Interest Term means, with respect to each Bond in a Commercial Paper Interest Rate Period, each period established in accordance with the Indenture during which such Bond will bear interest at a Bond Interest Term Rate.

Bond Interest Term Rate means, with respect to any Bond, an interest rate on such Bond established periodically in accordance with the Indenture.

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

Bonds means the California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A, authorized by, and at any time Outstanding pursuant to, the Indenture.

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

Business Day means a day that is not a Saturday, Sunday or a legal holiday on which banking institutions in (a) the State of California or the State of New York, (b) the city or cities in which the Principal Office of the Trustee is located, and (c) the city in which the principal office of each Remarketing Agent (if any) is located, are required or authorized to remain closed, or a day on which The New York Stock Exchange is closed.

Calculation Agent means, with respect to any Series of Bonds, an agent selected by the Corporation to calculate an Index Floating Rate or a Windows Interest Rate.

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

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

Commercial Paper Interest Rate Period means each period, with respect to a Series of Bonds, comprised of Bond Interest Terms, during which Bond Interest Term Rates are in effect.

Conversion means a conversion of the Bonds from one Interest Rate Period to another Interest Rate Period in accordance with the terms and provisions of the Indenture and will also include a conversion from one Fixed Period to a new Fixed Period.

Conversion Date means the effective date of a Conversion.

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

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 all or substantially all assets permitted under the Master Indenture.

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

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

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

Daily Interest Rate Period means, with respect to any Series of Bonds, each period during which a Daily Interest Rate is in effect.

Electronic Means means the following communication methods: email, 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 under the Indenture.

Electronic Notice means notice delivered by Electronic Means.

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

Event of Default means any of the events of default specified in the Indenture.

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

Fiscal Year has the meaning ascribed to that term in the Master Indenture.

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

Fixed Period means the Interest Rate Period during which a Series of Bonds bear interest at a Fixed Rate to their Maturity Date.

Fixed Rate means, for the Initial Fixed Period the Initial Fixed Rate, and after any Fixed Rate Conversion Date, the fixed interest rate or rates per annum determined prior to such Fixed Rate Conversion Date as provided in the Indenture.

Fixed Rate Conversion Date means the effective date of a Conversion of the Bonds to a Fixed Period or to a new Fixed Period which extends to the final Maturity Date of such Bonds.

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

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

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

Indenture means that certain indenture, dated as of September 1, 2023, between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Index Floating Rate means a variable interest rate borne by a Series of Bonds established in accordance with the Indenture.

Index Floating Rate Period means, each period during which an Index Floating Rate is in effect.

Initial Fixed Period means the Fixed Period for the Bonds commencing on the Issue Date.

Initial Fixed Rate means the rate or rates set forth for the respective maturities of the Bonds set forth in the Indenture.

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

Interest Payment Date means for any Fixed Period, each: (i) August 15 and February 15; (ii) Conversion Date; (iii) with respect to each Interest Rate Period, the day next succeeding the last day thereof and each date the Bonds are subject to mandatory tender for purchase; and (iv) Maturity Date.

Interest Rate Period means, with respect to the Bonds during the Initial Fixed Period, a Fixed Period.

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

(1) United States Government Obligations;

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

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

(4) U.S. dollar denominated deposit accounts, including other 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 fund 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.

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

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

Loan Agreement means that certain loan agreement, dated as of September 1, 2023, between the Authority and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

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

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

Long-Term Interest Rate means, with respect to a Series of Bonds, an interest rate on such Bonds established in accordance with the Indenture.

Long-Term Interest Rate Period means, with respect to a Series of Bonds, each period during which a Long-Term Interest Rate is in effect.

Master Indenture means that certain Amended and Restated Master Indenture of Trust, dated as of June 1, 2011, between the Corporation and the Master Trustee, as supplemented and amended to date; provided, however, that upon the issuance and acceptance by the Trustee of Obligation No. 46, and the satisfaction of the additional conditions precedent set forth in the Master Indenture, "Master Indenture" will mean that certain Second Amended and Restated Master Indenture of Trust, dated as of September 1, 2023, between the Corporation and the Master Trustee, as supplemented and amended from time to time.

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

Maturity Date means the maturity set forth on the inside cover of this Official Statement.

Maximum Interest Rate means twelve percent (12%) per annum, provided, however, that the Maximum Interest Rate may not exceed the Maximum Lawful Rate.

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

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

Minimum Authorized Denomination or Authorized Denomination means, with respect to any Fixed Period, $5,000 and any integral multiple thereof.

Moody's means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation is dissolved or liquidated or no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice in writing to the Authority and the Trustee.

Obligated Group has the meaning set forth in the Master Indenture.

Obligation No. 46 means the obligation issued under the Master Indenture and Supplement No. 46.

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

Outstanding means (subject to the provisions of the Indenture relating to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture

except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority has been discharged in accordance with the discharge provisions of the Indenture; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds has been authenticated and delivered by the Trustee pursuant to the Indenture, and (d) Undelivered Bonds no longer deemed to be Outstanding under the Indenture.

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

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

Principal Account means the account by that name in the Revenue Fund established pursuant to the Indenture.

Principal Office means, solely with respect to (i) the surrender of Bonds for payment, including payment of Purchase Price, transfer, or exchange and (ii) the delivery of notices relating to tender of bonds pursuant to the Indenture, such office as is designated by the Trustee, and for all other purposes, the corporate trust office of the Trustee located at One California Street, Suite 1000, San Francisco, California 94111, Attention: Global Corporate Trust or such other or additional offices as may be designated by the Trustee from time to time; provided, however, that for purposes of the presentation of Bonds for payment, transfer or exchange, the Principal Office will be the Trustee's designated corporate trust agency or operations office.

Project means the health facilities owned and operated by the Corporation to be financed by the Bonds as more fully described in the Indenture.

Project Fund means the fund so designated and established pursuant to the Indenture.

Purchase Date means the date Bonds are to be purchased pursuant to the Indenture.

Purchase Price of any Purchased Bond means the principal amount thereof plus accrued interest to, but not including, the Purchase Date; provided, however, that (a) if the Purchase Date for any Purchased Bond is an Interest Payment Date, the Purchase Price thereof will be the principal amount thereof, and interest on such Bond will be paid to the Holder of such Bond pursuant to the Indenture and (b) in the case of a purchase on the first day of an Interest Rate Period which is preceded by a Long-Term Interest Rate Period and which commences prior to the day originally established as the last day of such preceding Long-Term Interest Rate Period, “Purchase Price” of any Purchased Bonds means the optional redemption price set forth in the Indenture which would have been applicable to such Bond if the preceding Long-Term Interest Rate Period had continued to the day originally established as its last day, plus accrued interest, if any.

Purchased Bonds means Bonds to be purchased upon their optional or mandatory tender pursuant to the Indenture.

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, of any Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebate Fund means the fund by that name established pursuant to the Indenture.

Record Date means (i) with respect to any Interest Payment Date in respect to any Fixed Period, the first day (whether or not a Business Day) of the calendar month in which such Interest Payment Date occurs or, in the event that an Interest Payment Date will occur less than 15 days after the first day of a Fixed Period, such first day and (ii) with respect to any Bonds, the Purchase Date.

Redemption Fund means the fund by that name established pursuant to the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof), as and to the extent applicable, the principal amount of such Bond (or portion), plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Reimbursement Agreement means, if a Credit Facility, an Alternate Credit Facility, a Liquidity Facility and/or an Alternate Liquidity Facility is issued, any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement relating to such Credit Facility, Alternate Credit Facility, Liquidity Facility and/or Alternate Liquidity Facility.

Remarketing Agent means, with respect to any Series of Bonds, any Remarketing Agent or successor or additional Remarketing Agent appointed in accordance with the Indenture. "Principal Office" of the Remarketing Agent means the address for the Remarketing Agent designated in writing to the Trustee and the Corporation.

Remarketing Agreement means each such agreement between the Corporation and a Remarketing Agent, in each case as from time to time in effect.

Remarketing Proceeds Account means an account by that name within a Bond Purchase Fund established pursuant to the Indenture.

Revenue Fund means the fund by that name established pursuant to the Indenture.

Revenues means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 46, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any Additional Payments or Administrative Fees and Expenses or any moneys required to be deposited to, or on deposit in, the Rebate Fund or any Bond Purchase Fund.

Rule means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

S&P means S&P Global Ratings, its successors and assigns, or, if such organization is dissolved or liquidated or no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Trustee.

Securities Depository means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture.

Series, when used with respect to the Bonds, means all Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bond. For purposes of this Appendix D, any reference to Series or Series of Bonds refers to the Bonds.

Sinking Account means a subaccount in the Principal Account so designated and established pursuant to the Indenture.

Sinking Account Installment means, with respect to any Series of Bonds, the amount required to be paid by the Authority on any single date for the retirement of Bonds of such Series.

Sinking Account Redemption Date means the dates as specified in the Indenture.

State means the State of California.

Supplement No. 46 means that certain Supplemental Master Indenture for Obligation No. 46, dated as of September 1, 2023, between the Corporation and the Master Trustee, as originally executed and as amended or supplemented from time to time in accordance with the terms of the Master Indenture.

Supplemental Indenture means any supplemental indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Agreement means the Tax Certificate and Agreement, delivered by the Authority and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

Trustee means U.S. Bank Trust Company, 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.

Two-Day Interest Rate means a variable interest rate borne by a Series of Bonds and established in accordance with the Indenture.

Two-Day Interest Rate Period means, with respect to any Series of Bonds, a period during which a Two-Day Interest Rate is in effect.

Undelivered Bonds means any Bond which constitutes an Undelivered Bond under the provisions of the Indenture.

United States Government Obligations means:

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of which are fully and unconditionally guaranteed by the United States of America, including, but not limited to: (i) U.S. treasury obligations; (ii) all direct or fully guaranteed obligations; (iii) Farmers Home Administration; (iv) General Services Administration; (v) Guaranteed Title XI financing; (vi) Government National Mortgage Association (GNMA); and (vii) State and Local Government Series;

(2) certificates or other instruments that evidence direct ownership of future principal and/or interest on obligations described in clause (1), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and

(3) obligations (a) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (b) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2), and (c) that are rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

Weekly Interest Rate means a variable interest rate borne by a Series of Bonds established in accordance with the Indenture.

Windows Interest Rate means a variable interest rate borne by a Series of Bonds established in accordance with the Indenture.

Windows Interest Rate Period means, with respect to any Series of Bonds, each period during which a Windows Interest Rate is in effect for the Bonds.

INDENTURE

The Indenture sets forth the terms of the Bonds, the nature and extent of the security for the Bonds, various rights of the Bondholders, the rights, duties and immunities of the Trustee and the rights and obligations of the Authority. *Certain provisions of the Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS." This summary does not purport to be complete or definitive and reference is made to the Indenture for the complete terms thereof.*

Initial Interest Rate Period; Subsequent Interest Rate Periods

The initial Interest Rate Period for the Bonds will be a Fixed Period which will commence on the Issue Date. In the manner provided in the Indenture, the term of the Bonds will be divided into consecutive Interest Rate Periods during each of which such Bonds will bear interest at another Fixed Rate, a Long-Term Interest Rate, an Index Floating Rate, a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates, a Windows Interest Rate or a Two-Day Interest Rate; provided, however, that no Bond will bear interest in excess of the Maximum Interest Rate. All Bonds will bear interest in the same Interest Rate Period.

Conversion

The Corporation may convert Bonds to another Fixed Period, a Long-Term Interest Rate Period, an Index Floating Rate Period, a Daily Interest Rate Period, a Weekly Interest Rate Period, a Commercial Paper Interest Rate Period, a Windows Interest Rate Period or a Two-Day Interest Rate Period, as provided in the Indenture.

Notice of Conversion. The Trustee will give notice of conversion to a different Interest Rate Period or the establishment of a new Fixed Period to the Holders of the Bonds not less than ten (10) days prior to the proposed effective date of such Conversion. Such notice will state or include, as applicable: (i) that the interest rate on the Bonds will be converted to a different Interest Rate Period, or continue to be, a Fixed Rate, unless Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel as to such Conversion in the Interest Rate Period on the effective date of such Conversion, the Corporation rescinds

its election to convert the interest rate as provided pursuant to the provisions of the Indenture described below under the caption "Rescission of Conversion; Conditions to Conversion" or any other condition precedent to such Conversion is not met; (ii) the proposed effective date of the Conversion; and (iii) that the Bonds of the applicable Series are subject to mandatory tender for purchase on such proposed effective date and setting forth the applicable Purchase Price and the place of delivery for purchase of the Bonds.

Rescission of Conversion Notice; Conditions to Conversion. In the event that the Corporation elects to convert the interest rate on a Series of Bonds to a Weekly Interest Rate, a Long-Term Interest Rate, Bond Interest Term Rates, an Index Floating Interest Rate, a Window Interest Rate or a Fixed Rate as provided in the Indenture, then the written direction furnished by the Corporation as required by such sections will be made by registered or certified mail, or by Electronic Means, receipt confirmed.

Notwithstanding anything in the Indenture, in connection with any Conversion, the Corporation has the right to rescind its election to make such Conversion by delivering a notice of rescission on or prior to 10:00 a.m., New York City time, on the second Business Day preceding the effective date of any such Conversion, such notice of rescission to be delivered to the Trustee, the applicable Remarketing Agent (if any), and the Authority. If the Corporation rescinds its election to make such Conversion, then the Interest Rate Period will not be converted and the Bonds of such Series (i) bearing interest at the Weekly Interest Rate, Windows Interest Rate, Bond Interest Term Rates or Fixed Rates, as the case may be, shall continue to bear interest at the Weekly Interest Rate, Windows Interest Rate, Bond Interest Term Rates or Fixed Rates as in effect immediately prior to such proposed Conversion; and (ii) bearing interest at a Long-Term Interest Rate or Index Floating Rate shall be converted to bear interest at a Weekly Interest Rate, determined in accordance with the Indenture, commencing on the date the Bonds of such Series would have otherwise been converted unless otherwise directed by the Corporation. In any event, if notice of a Conversion has been mailed to the Holders of such Series as provided in the Indenture and the Corporation rescinds its election to make such Conversion, then the Bonds of such Series (except Bonds in a Windows Interest Rate Period or Fixed Period, which shall not be subject to mandatory tender) will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the Indenture.

No Conversion from one Interest Rate Period to another will take effect under the Indenture unless each of the following conditions, to the extent applicable, has been satisfied:

(i) A Favorable Opinion of Bond Counsel has been delivered with respect to such Conversion.

(ii) The remarketing proceeds available on the Conversion Date will not be less than the amount required to purchase all of the Bonds of the applicable Series at the Purchase Price (unless the Corporation elects to transfer to the Trustee the amount of such deficiency on or before the Conversion Date).

(iii) Any Conversion will be with respect to all of the Bonds of the applicable Series.

(iv) In the case of any Conversion from a Long-Term Interest Rate Period to any other Interest Rate Period (except a Long-Term Interest Rate Period or an Index Floating Rate Period effective to the Maturity Date of the applicable Series of Bonds), prior to the Conversion Date, the Corporation has appointed a Remarketing Agent.

(v) In the case of any Conversion to an Index Floating Rate Period or a Windows Interest Rate Period, the Corporation, prior to the Conversion Date, has appointed a Calculation Agent or a Windows Calculation Agent, as applicable.

(vi) In the case of any Conversion to Commercial Paper Rates, the Corporation, prior to the Conversion Date, will take such other steps as necessary to comply with the requirements of the Securities Depository with respect to a Series of Bonds in a Commercial Paper Interest Rate Period.

Notwithstanding the provisions above, if Bonds of the applicable Series would have been subject to mandatory purchase pursuant to the Indenture on a proposed Conversion Date regardless of the Corporation's election to convert the Bonds of the applicable Series to a new Interest Rate Period, the Bonds of the applicable Series will continue to be subject to mandatory purchase pursuant to the applicable provisions of the Indenture notwithstanding failure to satisfy the conditions precedent to a change in Interest Rate Period or failure to have adequate remarketing proceeds available on the proposed Conversion date, and failure to pay the Purchase Price of the Bonds of the applicable Series constitutes an Event of Default pursuant to the Indenture.

Changes to Serial Maturity Dates in Connection with a Conversion from the Fixed Period. Upon the Conversion of the Bonds from the Fixed Period, the Maturity Date for any serial maturities of the Bonds will become August 15, 2033 and principal amounts of such serial maturities of the Bonds while operating in the prior Fixed Period will become Sinking Account Installments. All existing Sinking Account Installments will remain in effect and any term bond maturity installment (other than the installment due on the final Maturity Date) will become a Sinking Account Installment. The final Maturity Date of the Bonds and the amount of principal due on such final Maturity Date will not be changed. Notwithstanding the foregoing, the Corporation may deliver to the Trustee a schedule of revised Maturity Dates and maturity amounts, including Sinking Account Installments, for the Bonds then being converted from the Fixed Period; provided that such schedule be accompanied by a Favorable Opinion of Bond Counsel.

Transfer of Bonds

Any Bond may, in accordance with its terms and subject to the limitations provided in the Indenture, be transferred, upon the books required to be kept pursuant to the provisions of the Indenture, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee.

Whenever any Bond or Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds, of the same maturity and Series and for a like aggregate principal amount of 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 expenses incurred by the Trustee or the Authority in connection with such transfer. The Trustee will not be required to transfer (i) any Bond during the twenty-five (25) days next preceding the date on which notice of redemption of Bonds of the applicable Series is given or during the twenty-five (25) days next preceding an Interest Payment Date for Bonds of the applicable Series or (ii) any Bond called for redemption.

Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor will 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 Code Section 6045, as amended. The Trustee will conclusively rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

Exchange of Bonds

Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of other Minimum Authorized Denominations of the same maturity and Series. 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 expenses incurred by the Trustee or the Authority in connection with such exchange. The Trustee will not be required to exchange (i) any Bond during the twenty-five (25) days next preceding the date on which notice of redemption of Bonds of the applicable Series is given or during the twenty-five (25) days next preceding an Interest Payment Date for Bonds of the applicable Series or (ii) any Bond called for redemption.

Bond Register

The Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which will at all times (during regular business hours at the location where such books are kept and upon reasonable prior notice) be open to inspection by any Bondholder or such Bondholder's agent duly authorized in writing, the Authority or the Corporation; and, upon presentation for such purpose, the Trustee will, 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.

Tenders

Notices of Mandatory Tender. In connection with any mandatory tender for purchase of the Bonds in accordance with the Indenture, the Trustee will give such notice as part of the notice of conversion given pursuant to the Indenture. Such notice will state or include, as applicable: (1) that the Purchase Price of any Bond so subject to mandatory tender for purchase will be payable only upon surrender of such Bond to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (2) that all Bonds so subject to mandatory tender for purchase will be purchased on the mandatory Purchase Date which will be explicitly stated; and (3) that in the event that any Holder of a Bond so subject to mandatory tender for purchase will not surrender such Bond to the Trustee for purchase on such mandatory Purchase Date, then such Bond will be deemed to be an Undelivered Bond, and that no interest will accrue thereon on and after such mandatory Purchase Date and that the Holder thereof has no rights under the Indenture other than to receive payment of the Purchase Price thereof.

Undelivered Bonds. The Trustee may refuse to accept delivery of any Bonds for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such Bond as provided in the Indenture. For purposes of the Indenture, the Trustee will determine timely and proper delivery of the Bonds and the proper endorsement of the Bonds. Such determination will be binding on the Holders of the Bonds, the Corporation and the applicable Remarketing Agent, absent manifest error. If any Holder of a Bond subject to mandatory tender for purchase pursuant to the Indenture fails to deliver such Bond to the Trustee at the place and on the applicable date and at the time specified, or fails to deliver such Bond properly endorsed, such Bond will constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available in accordance with the Indenture for payment to the Holder thereof on the date and at the time specified, from and after the date and time of that required delivery: (1) the Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding under the Indenture; (2) interest will no longer accrue thereon; and (3) funds in the amount of the Purchase Price of the Undelivered Bond will be held by the Trustee for such Bond for the benefit of the Holder thereof, to be paid on delivery (and proper endorsement) of the

Undelivered Bond to the Trustee at its Principal Office. Any funds held by the Trustee as described in clause (3) of the preceding sentence will be held uninvested.

Inadequate Funds for Tenders. If sufficient funds are not available for the purchase of all Bonds tendered or deemed tendered and required to be purchased on any Purchase Date, (1) the failure to pay the Purchase Price of all tendered Bonds when due and payable will constitute an Event of Default pursuant to the Indenture, (2) all tendered Bonds will be returned by the Trustee to their respective Holders, and (3) all Bonds will bear interest at the Maximum Interest Rate from the date of such failed purchase until all the Bonds are purchased as required in accordance with the Indenture. Any moneys deposited with the applicable Remarketing Agent or transferred to the Trustee with respect to such failed remarketing will be returned to the party depositing those moneys. Thereafter, the Trustee will continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Corporation to effect a subsequent successful remarketing of any tendered Bonds.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. Eligible Bonds will be subject to mandatory tender for purchase on the first day of each Interest Rate Period for such Bonds and the first day of each succeeding Long-Term Interest Rate Period, Index Floating Rate Period or Fixed Period for such the Bonds or on the day which would have been the first day of an Interest Rate Period had one of the events specified in the Indenture not occurred which resulted in the interest rate not being converted (except in the case of Bonds in a Window Interest Rate Period or Fixed Period, which shall not be subject to mandatory tender pursuant to the Indenture if the interest rate is not converted), at the Purchase Price, payable in immediately available funds. The Purchase Price of any Bond so purchased will be payable only upon surrender of such Bond to the Trustee at its Principal Office, accompanied by an instrument of transfer thereof, in form satisfactory to such Trustee, executed in blank by the Holder thereof or by the Holder's duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange at or prior to 10:00 a.m., New York City time, on the date specified for such delivery in this paragraph.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, to secure the payment of the principal and Purchase Price of and interest on the Bonds in accordance with the terms and the provisions of the Indenture, the Authority pledges to the Trustee, and grants to the Trustee a security interest in and lien on, all of its right, title and interest, whether now owned or thereafter acquired, in to, and under (i) all of the Revenues, (ii) each fund and each account established pursuant to the Indenture (except the any Bond Purchase Fund and any Rebate Fund) and all money, instruments, securities, investment property, and other property on deposit in or credited to any fund or account established pursuant to the Indenture (except the any Bond Purchase Fund and any Rebate Fund), (iii) the Loan Agreement (excluding (i) the right to receive any Additional Payments or Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to be indemnified, held harmless and defended and rights to inspection and to receive notices, certificates or opinions, (iii) express rights to give approvals, consents or waivers, and (iv) the obligation of the Corporation to make deposits pursuant to the Tax Agreement), (v) Obligation No. 46, and (vi) all proceeds of the foregoing. Said pledge will constitute a lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

Pursuant to the provisions of the Indenture, the Authority assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the right, title and interest of the Authority in the Loan Agreement (excluding (i) the right to receive any Additional Payments or Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to be indemnified, held

harmless and defended and rights to inspection and to receive notices, certificates or opinions, (iii) express rights to give approvals, consents or waivers, and (iv) the obligation of the Corporation to make deposits pursuant to the Tax Agreement and Obligation No. 46. The Trustee will be entitled to and will collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to and will take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority (other than those rights retained by the Authority under the provisions of the Indenture described under this caption) and all of the obligations of the Corporation under the Loan Agreement and of the Members under Obligation No. 46. All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Except as is otherwise provided in the Indenture with respect to (i) deposits to any Bond Purchase Fund, the Rebate Fund and the Redemption Fund and (ii) investment earnings, all Revenues will be promptly deposited by the Trustee upon receipt thereof in a separate fund designated as the "Revenue Fund" which the Trustee is directed to establish, maintain and hold in trust.

If one (1) Business Day prior to each Interest Payment Date and each principal payment date, including each Sinking Account Redemption Date, the Trustee has not received Revenues sufficient to make the payment of principal of and/or interest on the Bonds due on such Interest Payment Date or principal payment date, the Trustee will immediately notify the Corporation of such insufficiency by telephone or Electronic Means.

Allocation of Revenues

On or before the dates specified below, the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: on or before each Interest Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest;

Second: on or before each Sinking Account Redemption Date or each principal payment date, to the principal account, the amount of the Sinking Account Installment or principal payment becoming due and payable on such date, until the balance in said account is equal to said amount of such Sinking Account Installment or principal payment; and

Third: on each date specified in the Tax Agreement, to the Rebate Fund, such amounts as are required to be deposited therein by the Tax Agreement.

Any moneys remaining in the Revenue Fund after the foregoing transfers will be transferred to the Corporation as an overpayment of Loan Repayments.

Establishment of Funds and Accounts

The Indenture creates an Interest Account, a Principal Account, a Bond Purchase Fund, a Rebate Fund, a Redemption Fund and a Project Fund. All such funds and accounts will be established, maintained and held in trust by the Trustee and applied in accordance with the provisions set forth in the Indenture.

Funding and Application of the Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity from funds on deposit in the Principal Account or the Redemption Fund pursuant to the Indenture).

Funding and Application of the Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to purchase or redeem or pay Sinking Account Installments or pay at maturity the Bonds as provided in the Indenture.

The Trustee will establish and maintain within the Principal Account a separate subaccount for each Series of the Bonds, for which Sinking Account Installments are established, each separate subaccount to be designated as the "Sinking Account" (inserting therein the Series designation of such Bonds and the maturity of such Series of Bonds, and, if necessary, interest rate of Bonds of the Series to which such Sinking Account relates). The Trustee will transfer the amount deposited in the Principal Account pursuant to the Indenture for the purpose of making a Sinking Account Installment (if such payment is required at such time) from the Principal Account to the applicable Sinking Account. On each Sinking Account Redemption Date established for a Series of Bonds, the Trustee will apply the Sinking Account Installment required on that date to the redemption (or payment at maturity, as the case may be) of the applicable Series of the Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in such Sinking Account to the purchase of Bonds of the Series for which the Sinking Account was established, at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) will not exceed the par amount of the Bonds of such Series so purchased. If, during the twelve-month period immediately preceding a Sinking Account Redemption Date, the Trustee has purchased Bonds of a Series with moneys in a Sinking Account, for which such Sinking Account was established, or, during said period and prior to giving said notice of redemption, the Corporation has deposited any such Bonds of a Series with the Trustee (together with a Request of the Corporation, to apply such Bonds of a Series to the related Sinking Account Installment due on said date with respect to such Series), or Bonds of such Series were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Sinking Account Installment, such Bonds of a Series will be applied, to the extent of the full principal amount thereof, to reduce said Sinking Account Installment with respect to such Series. All Bonds purchased or deposited if any, will be cancelled by the Trustee. Bonds purchased from a Sinking Account, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Trustee will be allocated (a) first to the next succeeding related Sinking Account Installment, then as a credit against such future related Sinking Account Installments as the Corporation may specify in writing or (b) as the Corporation may specify in writing. Any amounts remaining in the Sinking Account when all of the Bonds of the Series for which the Sinking Account was established are no longer Outstanding will be withdrawn by the Trustee and transferred to the Revenue Fund.

Funding and Application of the Redemption Fund. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Redemption Fund." All amounts deposited in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given and at the then-applicable Redemption Price; provided that,

at any time prior to giving such notice of redemption, the Trustee will, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds; and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation.

Funding and Application of the Rebate Fund. The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee will maintain such accounts as will be specified by the Tax Agreement. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as described in the Tax Agreement), for payment to the federal government of the United States of America. Neither the Authority, the Corporation, the Holder of any Bonds, has any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by the provisions of the Indenture and by the Tax Agreement. The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Corporation including supplying all necessary information in the manner requested by the Corporation, and has no liability or responsibility to enforce compliance by the Corporation or the Authority with the terms of the Tax Agreement. The Authority will be deemed conclusively to have complied with the provisions set forth under this caption if it takes such action as may reasonably be requested by the Corporation pursuant to the Tax Agreement.

Funding and Application of the Project Fund

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund will be used and withdrawn by the Trustee to pay the costs of the Project or to reimburse the Corporation for expenditures made with respect to the Project, in accordance with the terms of the Tax Agreement. No moneys in the Project Fund will be used to pay costs of issuance. Before any payment from the Project Fund for costs of the Project will be made, the Corporation will file or cause to be filed with the Trustee a Project Fund Requisition, in substantially such form as is attached to the Indenture.

Upon receipt of a Project Fund Requisition, the Trustee will pay the amount set forth in such Project Fund Requisition as directed by the terms thereof out of the Project Fund. The Trustee will not make any such payment if it has received any written notice of claim of lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, other than materialmen's or mechanics liens accruing by mere operation of law, that has not been released or will not be released simultaneously with such payment. Each such Project Fund Requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee has no duty to confirm the accuracy of such facts.

When the Project has been completed or the Corporation otherwise certifies to the Trustee that the Project Fund should be closed, there will be delivered to the Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved), or stating the other circumstances due to which the Project Fund should be closed. Upon the receipt of such Certificate, the Trustee will, as directed by said Certificate, transfer any remaining balance in such Project Fund to the Revenue Fund or the Redemption Fund, as specified in the Corporation's Certificate. Upon such transfer, the Project Fund will be closed.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to the Indenture (other than any Bond Purchase Fund) will be invested by the Trustee, upon the written direction of the Corporation, solely in Investment Securities. Investment Securities will be purchased at such prices as the Corporation may direct. The directions of the Corporation will be subject to the limitations set forth in the Indenture. All Investment Securities will be acquired subject to the limitations as to maturities set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. No Request of the Corporation will impose any duty on the Trustee inconsistent with its responsibilities under the Indenture. In the absence of directions from the Corporation, the Trustee will invest in Investment Securities specified in clause (6) of the definition thereof in the Indenture; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the Corporation specifying a specific money market fund and, if no such written direction from the Corporation is so received, the Trustee will hold such moneys uninvested. Unless otherwise specifically provided in the Indenture, ratings and credit criteria specified with respect to any Investment Security will refer to the ratings assigned and the credit of the issuing or guaranteeing organization at the time such Investment Security is acquired.

All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited when received in such fund. Unless otherwise specifically provided in the Indenture, all interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture will be deposited when received in such fund or account. Notwithstanding any other provision of the Indenture to the contrary, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture will be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account will be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or par value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

Certain Covenants

Tax Covenant. The Authority will at all times do and perform all acts and things permitted by law and the Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Authority agrees to comply with the provisions of the Tax Agreement. This covenant survives payment in full or defeasance of the Bonds.

Enforcement of Loan Agreement and Obligation No. 46. The Trustee will promptly collect all amounts due from the Corporation pursuant to the Loan Agreement and from the Members pursuant to Obligation No. 46, will perform all duties imposed upon it pursuant to the Loan Agreement and, subject to its rights and protections under the Indenture, will be entitled to enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority except such rights as the Authority has retained, including without limitation, the rights to enforce remedies upon the occurrence and continuation of an Event of Default, and all of the obligations of the Corporation and the other Members.

Amendment of Loan Agreement. Except as provided pursuant to the provisions of the Indenture described in the following paragraph, the Authority will not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, unless the written consent of the Corporation and the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Trustee, provided that no such amendment, modification or termination will reduce the amount of Loan Repayments to be made to the Authority or the Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

Notwithstanding the provisions of the Indenture described in the preceding paragraph, the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the Authority and the Corporation by a supplement to the Loan Agreement, which the Authority and the Corporation may enter into without the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Indenture, and which will not materially adversely affect the interests of the Holders of the Bonds; and (3) to evidence or give effect to, or to conform to the terms and provisions of, any liquidity facility; (4) to evidence or give effect to, or to conform to the terms and provisions of, any credit facility or other credit enhancement for the Bonds; (5) to maintain the exclusion from gross income of interest payable with respect to the Bonds; (6) to make any modification or amendment to the Loan Agreement relating to the Bonds of a Series which will be effective upon the remarketing of Bonds of a Series following the mandatory tender of the Bonds of a Series pursuant to the Indenture; and (7) to modify, alter, amend or supplement the Loan Agreement in any other respect which is not materially adverse to the Bondholders.

In executing any amendment or modification of the Loan Agreement permitted by the provisions of the Indenture described under this caption, the Authority will be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such amendment or modification is authorized or permitted by the Indenture.

Replacement of Obligation No. 46. Obligation No. 46 will be surrendered by the Trustee and delivered to the Master Trustee for cancellation upon receipt by the Master Trustee of the following: (a) a Request of the Corporation requesting such surrender and delivery and stating that (i) the Corporation has become a member of an obligated group (herein referred to as the "New Group") under a master indenture (other than the Master Indenture) (herein referred to as the "Replacement Master Indenture"), (ii) that no Event of Default exists under the Indenture or will be caused by such surrender and delivery and (iii) that an obligation is being issued to the Trustee under the Replacement Master Indenture; (b) a properly 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. 46 (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 to 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 and each of the other members of the New Group; (d) a Favorable Opinion of Bond Counsel; (e) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture; (f) any of the following

(x) an Officer's Certificate (as such term is defined in the Master Indenture) showing that the Debt Service Coverage Ratio (as such term is defined in the Master Indenture) for the most recently ended Fiscal Year of the Corporation was not less than 1.10, or (y) written confirmation from each Rating Agency then rating the Bonds that the replacement of Obligation No. 46 will not, by itself, result in a reduction in the then-current ratings on the Bonds, or (z) an Officer's Certificate (as such term is defined in the Master Indenture) 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 (g) a certificate of the Master Trustee to the effect that Obligation No. 46 has been cancelled.

Upon satisfaction of the conditions identified above, (i) all references in the Indenture, in the Bonds, in the Loan Agreement and in the Tax Agreement to Obligation No. 46 will be deemed to be references to the Replacement Obligation, (ii) all references to the Master Indenture will be deemed to be references to the Replacement Master Indenture, (iii) all references to the Master Trustee will be deemed to be references to the master trustee under the Replacement Master Indenture, (iv) all references to the Obligated Group and the Members of the Obligated Group Members will be deemed to be references to the New Group and the members of the New Group, and (v) all references to Supplement No. 46 will be deemed to be references to the supplemental master indenture pursuant to which the Replacement Obligation is issued.

Events of Default and Remedies

Events of Default. The following events will be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond, when and as the same becomes due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Account Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond, when and as such interest installment becomes due and payable;

(C) failure to pay the Purchase Price of any Bond tendered or subject to mandatory tender pursuant to the Indenture;

(D) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds, contained, if such default has continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the Authority and the Corporation by the Trustee or to the Authority, the Corporation and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; or

(E) a Loan Default Event.

Acceleration of Maturities. Whenever any Event of Default has happened and be continuing, the Trustee may take the following remedial steps:

(A) In the case of an Event of Default under the provisions of the Indenture, the Trustee may, and must, at the written direction of the Holders of a majority in principal amount of Bonds then Outstanding, notify the Authority and the Master Trustee of such Event of Default, may make a demand

for payment under Obligation No. 46 and may request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members declaring the principal of all obligations issued under the Master Indenture then outstanding to be due and immediately payable. Thereupon, the Trustee will declare the principal of all Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same becomes and will be immediately due and payable, anything in the Indenture to the contrary notwithstanding. In addition, the Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 46;

(B) In the case of an Event of Default described in (E) above under the caption "Events of Default," the Trustee may take whatever action the Authority would be entitled to take, and will take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

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 has been obtained or entered, the Authority or the Corporation will deposit with the Trustee a sum sufficient to pay all the principal (including any Sinking Account Installments) or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and if the Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 46 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Trustee will, on behalf of the Holders of all of the Bonds, rescind and annul such declaration of acceleration of the Bonds and its consequences and waive such default; but no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

Nothing contained in the Indenture, however, will require the Trustee to exercise any remedies in connection with an Event of Default unless the Trustee has actual knowledge or has received written notice of such Event of Default.

Application of Revenues and Other Funds after Default. If an Event of Default will occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions of the Indenture relating to moneys held for particular Bonds and other than moneys required to be deposited in the Rebate Fund or any Bond Purchase Fund) will be applied by the Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel, advisors and agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(i) Unless the principal of all of the Bonds has 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 will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Account Installments) or Redemption Price of any Bonds which has become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference; and

(ii) If the principal of all of the Bonds has become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference; and

(3) To the payment of the reasonable fees, charges and expenses of the Authority and the payment of any amounts owed pursuant to the provisions of Loan Agreement.

Trustee to Represent Bondholders. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Indenture, the Loan Agreement, Obligation No. 46, the Act or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Holders of the Bonds, subject to the provisions of the Indenture. Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

Direction of Proceedings by Bondholders. The Holders of a majority in aggregate principal amount of the Bonds of such Series then Outstanding, have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under

the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee has 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 duty to make such determination).

Limitation on Bondholders' Right to Sue. No Holder of any Bond has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, Obligation No. 46, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder has 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 has made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders has tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee has refused or omitted to comply with such request for a period of sixty (60) days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds has any right in any manner whatever by such Holder's or Holders' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement, Obligation No. 46, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Termination of Proceedings. In case any proceedings taken by the Trustee, any one or more Bondholders on account of any Event of Default has been discontinued or abandoned for any reason or has been determined adversely to the Trustee or the Bondholders, then in every such case the Authority, the Trustee, the Bondholders, subject to any determination in such proceedings, will be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee, and the Bondholders will continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any default will impair any such right or power or will be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter

into when there has been filed with the Trustee the written consent of (i) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and (iii) the Corporation has been filed with the Trustee. No such modification or amendment will (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon or change in the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding. Notwithstanding the foregoing, if such amendment will, by its terms, not take effect so long as Bonds of any particular maturity and/or Series remain Outstanding, the consent of the Holders of Bonds of such maturity and/or Series will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding set forth under this caption. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof.

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Authority and the Trustee may enter into with the consent of the Corporation, but without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, including but not limited to reflecting the serialization of the Bonds upon their Conversion to a Fixed Period or reflecting the conversion of serial bonds to term bonds or other adjustments to the amortization and payment schedule in connection with their Conversion from a Fixed Period, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Holders of the Bonds, as evidenced by a Favorable Opinion of Bond Counsel delivered pursuant to the Indenture;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Holders of the Bonds, as evidenced by a Favorable Opinion of Bond Counsel delivered pursuant to the Indenture;

(4) to maintain the exclusion from gross income of interest payable with respect to the Bonds;

(5) to make any changes required by a Rating Agency in order to obtain or maintain a rating for any Series of Bonds;

(6) to make any amendments appropriate or necessary to accommodate conversion from one Interest Rate Period to another Interest Rate Period, including, but not limited to, conversion of a Series of Bonds from one Long-Term Interest Rate Period to another Long-Term Interest Rate Period;

(7) to effect a change in the maturity schedule or redemption schedule for a Series of Bonds upon conversion of such Series of Bonds to a Long-Term Interest Rate Period in accordance with the provisions set forth in in the Indenture;

(8) to make any modification or amendment to the Indenture with respect to a Series of Bonds which will be effective upon the remarketing such Series of Bonds following mandatory tender of such Series of Bonds pursuant to the Indenture;

(9) to make any amendments appropriate or necessary to provide for a credit facility or other credit enhancement for any Series of Bonds;

(10) to make any amendments appropriate or necessary to provide for a liquidity facility for any Series of Bonds;

(11) to facilitate and implement any termination of a book entry system with respect to the Bonds; or

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

Defeasance

Discharge of All Bonds Outstanding and Indenture. All Bonds Outstanding may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(1) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(2) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided pursuant to the provisions of the Indenture) to pay when due or redeem all Bonds then Outstanding; or

(3) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority will also pay or cause to be paid all other sums payable under the Indenture by the Authority, if the Corporation has paid all Additional Payments, Administrative Fees and Expenses payable to the Authority, any indemnification owed to the Authority or the Trustee and any other fees and expenses payable to the Authority pursuant to the Loan Agreement, and if the Corporation has provided for full payment of all amounts due under any Reimbursement Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture and upon receipt by the Authority and the Trustee of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds being paid have been discharged), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided in the Indenture) will cease, terminate, become void and be completely discharged and satisfied.

Notices

Notwithstanding any other provision in the Indenture to the contrary, any notice to be delivered to Bondholders may be given by Electronic Notice.

LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds, to the Corporation and the repayment of and security for the loan provided by the Corporation. *The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and reference is made to the Loan Agreement for the complete terms thereof.*

Issuance of Obligation No. 46

In consideration of the issuance of the Bonds by the Authority and the application of the proceeds thereof as provided in the Indenture, the Corporation agrees to issue, or cause to be issued, and to cause to be authenticated and delivered to the Authority or its designee, pursuant to the Master Indenture and Supplement No. 46, concurrently with the issuance and delivery of the Bonds, Obligation No. 46. The Authority agrees that Obligation No. 46 will be registered in the name of the Trustee.

Payment of Loan

Loan of Proceeds; Payments of Principal and Interest. Pursuant to the Loan Agreement, the Authority lends and advances to the Corporation, and the Corporation borrows and accepts from the Authority, the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of the Loan Agreement and the Indenture. In consideration of the loan of such proceeds to the Corporation, the Corporation agrees to pay, or cause to be paid, Loan Repayments in an amount sufficient to enable the Trustee to make the transfers and deposits required at the times and in the amounts pursuant to the Indenture. Notwithstanding the foregoing schedule of payments, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal of, premium, if any, and interest on the Bonds from time to time Outstanding under the Indenture and other amounts required to be paid under the Indenture, as the same becomes due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

Except as otherwise expressly provided in the Loan Agreement, all Loan Repayments payable by the Corporation to the Authority under the Loan Agreement or with respect to Obligation No. 46 will be paid to the Trustee, as assignee of the Authority, and the Loan Agreement and all right, title and interest of the Authority in any such payments are assigned and pledged to the Trustee pursuant to the Indenture so long as any Bonds remain Outstanding.

Additional Payments. In addition to Loan Repayments, the Corporation will also pay to the Authority, the Trustee, or the designated agent of any of them, as the case may be, "Additional Payments," as described below. The obligations of the Corporation described under this caption with respect to the Authority and the Trustee will survive the resignation and removal of the Trustee, payment of the Bonds and discharge of the Indenture.

The Additional Payments to the Authority include:

(a) All taxes and assessments of any type or character charged to the Authority affecting the amount available to the Authority from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments

assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments); provided, however, (i) that the Corporation has the right to protest any such taxes or assessments and to require the Authority, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and (ii) that the Corporation has the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority, and the Corporation has provided the Authority with security and indemnification reasonably deemed adequate by the Authority in respect of such affected rights or interests;

(b) All amounts payable to the Authority under the Loan Agreement and under the Indenture;

(c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, Obligation No. 46 or the Indenture;

(d) The annual fee of the Authority, any and all fees and expenses incurred primarily in connection with the authorization, issuance, sale and delivery of any Bonds and the reasonable fees and expenses of the Authority or any agency of the State selected by the Authority to act on its behalf in connection with the Loan Agreement, Obligation No. 46, the Bonds or the Indenture, including, without limitation, in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving the Loan Agreement, Obligation No. 46, the Bonds or the Indenture or any of the other documents contemplated thereby, or by the Attorney General of the State of California or such other counsel as the Authority may select in connection with the reasonable supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration (both before and after the execution of the Loan Agreement) of the Loan Agreement or the Indenture; and

(e) All other reasonable and necessary fees and expenses attributable to the Bonds, the Loan Agreement, Obligation No. 46 or related documents, including, without limitation, all payments required pursuant to the Tax Agreement.

The Additional Payments to the Trustee include:

(a) All taxes and assessments of any type or character charged to the Trustee affecting the amount available to the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated thereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments); provided, however, (i) that the Corporation has the right to protest any such taxes or assessments and to require the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon them and (ii) that the Corporation has the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Trustee, and the Corporation has provided the Trustee with security and indemnification satisfactory to the Trustee in respect of such affected rights or interests;

(b) All reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement or the Indenture;

(c) All amounts payable to the Trustee under the Loan Agreement and the fees and expenses (including, without limitation, legal fees and expenses) payable to the Trustee under the Indenture; and

(d) All other reasonable and necessary fees and expenses attributable to the Bonds, the Loan Agreement, or related documents, including, without limitation, all payments required pursuant to the Tax Agreement.

Credits for Payments. The Corporation will receive credit against its payments required to be made under the Loan Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) on installments of interest in an amount equal to moneys deposited in the Interest Account, which amounts are available to pay interest on the Bonds, to the extent such amounts have not previously been credited against such payments;

(b) on installments of principal in an amount equal to moneys deposited in the Principal Account, which amounts are available to pay principal of the Bonds, to the extent such amounts have not previously been credited against such payments;

(c) on installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined by the Indenture) in cash or United States Government Obligations are on deposit as provided in the Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits will be made against the installments of principal and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity; and

(d) on installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered 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 will be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

Prepayment. The Corporation has the right, so long as all amounts that have theretofore become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of the Loan Repayments, and the Authority agrees that the Trustee will accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of United States Government Obligations or surrender of Bonds. All such prepayments will be deposited upon receipt in the Redemption Fund and, at the request of and as determined by the Corporation, credited against payments due under the Loan Agreement or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Master Indenture and the Indenture.

Notwithstanding any prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Corporation will not be relieved of its obligations under the Loan Agreement.

The Corporation will also have the right to surrender Bonds acquired by it in any manner whatsoever to the Trustee for cancellation, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired and allocated as set forth in a Request of the Corporation.

Payment of Purchase Price of Purchased Bonds. The Corporation agrees that the Corporation will pay to the Trustee all amounts necessary for the purchase of Bonds pursuant to the Indenture and not deposited with the Trustee by the applicable Remarketing Agent from the proceeds of the sale of such Bonds pursuant to the Indenture. Each such payment by the Corporation to the Trustee will be in

immediately available funds and will be paid to the Trustee at its Principal Office by 2:45 p.m., New York City time, on each date upon which a payment is to be made pursuant to the Indenture.

Obligations Unconditional. The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 46, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 46, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 46, the Master Indenture or the Indenture. Until the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation:

(a) Will pay all amounts required under the Loan Agreement and under Obligation No. 46 without abatement, deduction or set-off except as otherwise expressly provided in the Loan Agreement;

(b) Will not suspend or discontinue any payments due under the Loan Agreement or under Obligation No. 46 for any reason whatsoever, including, without limitation, any right of set-off or counterclaim;

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

(d) Except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, damage, destruction or condemnation of the Corporation's facilities or any part thereof, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State, or any political subdivision of either thereof or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement.

Nonliability of the Authority

The Authority will not be obligated to pay the principal of, premium, if any, or interest on the Bonds, except from Revenues and other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on, the Bonds. The Authority will not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind or any conceivable theory, under or by reason of or in connection with the Loan Agreement, Obligation No. 46, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Corporation under the Loan Agreement or under Obligation No. 46.

The Corporation hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by payments made by the Corporation under the Loan Agreement and pursuant to Obligation No. 46 and other Revenues, together with investment income on, certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made under the Loan Agreement and under Obligation No. 46 ever prove insufficient to pay all principal of, premium, if any, and interest on the Bonds as the same becomes due (whether by maturity, redemption, acceleration or otherwise), or to pay the Purchase Price of any Bonds upon optional or mandatory tender pursuant to the Indenture then upon notice from the Trustee, the Corporation will pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Master Trustee, the Corporation, the Authority or any third party.

Tax Covenant

The Corporation covenants and agrees that it will at all times do and perform all acts and things permitted by law and the Loan Agreement which are necessary in order to assure that interest paid on the Bonds will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Corporation agrees to comply with the provisions of the Tax Agreement. This covenant survives payment in full or defeasance of the Bonds.

Compliance with Indenture; Approval of Appointment of Initial Trustee

The Corporation agrees to all of the terms and provisions of the Indenture and accepts each of its obligations thereunder. Without limiting the foregoing, the Authority may assign its rights under the Loan Agreement as set forth in the Indenture. The Corporation approves the initial appointment of U.S. Bank Trust Company, National Association as Trustee under the Indenture.

Continuing Disclosure

The Corporation covenants and agrees to comply with the continuing disclosure requirements promulgated under the Rule. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the requirements of the Rule will not be considered a Loan Default Event; however, the Trustee, at the written request of any Participating Underwriter or the Holders of at least a majority aggregate principal amount of a Series of Bonds Outstanding, will, but only to the extent the Trustee is indemnified to its satisfaction from and against any cost, liability or expense related thereto, including, without limitation, reasonable fees and expenses of its attorneys and advisors and its additional fees and expenses, or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations pursuant to this caption.

Loan Default Events and Remedies

Loan Default Events. Each of the following events constitute a Loan Default Event under the Loan Agreement:

(a) Failure by the Corporation to pay in full any payment required under the Loan Agreement or under Obligation No. 46 when due;

(b) If any material representation or warranty made by the Corporation in the Loan Agreement or in any document, instrument or certificate furnished to the Trustee or the Authority in connection with the issuance of Obligation No. 46 or the Bonds will at any time prove to have been incorrect in any respect as of the time made;

(c) If the Corporation fails to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as described in subsection (a) or (b) above, or breaches any warranty by the Corporation contained in the Loan Agreement, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority or the Trustee; except that, if such failure or breach can be remedied but not within such 60 day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach will not become a Loan Default Event for so long as the Corporation will diligently proceed to remedy such

failure or breach in accordance with and subject to any directions or limitations of time established by the Authority, or the Trustee;

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities;

(e) If a court of competent jurisdiction enters an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree will not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Corporation's facilities, and such custody or control will not be terminated within sixty (60) days from the date of assumption of such custody or control;

(g) Any Event of Default as defined in and under the Indenture; or

(h) Any Event of Default as defined in and under the Master Indenture.

Remedies on Default. If a Loan Default Event occurs, then, and in each and every such case during the continuance of such Loan Default Event, the Authority and the Trustee on behalf of the Authority, subject to the limitations in the Indenture as to the enforcement of remedies and subject to the Trustee's rights and protections under the Indenture, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given by the Loan Agreement or available under the Loan Agreement or given by or available under any other instrument of any kind securing the Corporation's performance under the Loan Agreement (including, without limitation, Obligation No. 46 and the Master Indenture);

(b) By written notice to the Corporation declare an amount equal to all amounts then due and payable on the Bonds, whether by acceleration of maturity or otherwise, to be immediately due and payable under the Loan Agreement, whereupon the same becomes immediately due and payable; and

(c) Take any action at law or in equity to collect the payment required under the Loan Agreement then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Trustee will not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee if the Master Trustee has declared the aggregate

principal amount of Obligation No. 46 and all interest thereon immediately due and payable in accordance with the provisions of the Master Indenture.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

California Health Facilities Financing Authority
Sacramento, California

California Health Facilities Financing Authority Revenue Bonds
(Stanford Health Care), 2023 Series A
Final Opinion

Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Authority") in connection with issuance of $260,545,000 aggregate principal amount of California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A (the "Bonds"), issued pursuant to an Indenture, dated as of September 1, 2023 (the "Indenture"), between the Authority and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to Stanford Health Care (the "Corporation") pursuant to a loan agreement, dated as of September 1, 2023 (the "Loan Agreement"), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Agreement, opinions of counsel to the Authority, the Corporation and the Trustee, certificates of the Authority, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities such as the Authority in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or to have the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion or view with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and the other assets pledged therefor under the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax.

We observe that, for tax years beginning after December 31, 2022, interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX F

BOOK-ENTRY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and neither the Authority nor the Corporation takes responsibility for the completeness or accuracy thereof. The Authority and the Corporation cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (established by DTC and identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or 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 Participants or Indirect Participants and not of DTC (nor its nominee), the Trustee, the Corporation or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation, the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Corporation believe to be reliable, but neither the Authority nor the Corporation takes responsibility for the accuracy thereof.

None of the Authority, the Corporation, the Underwriters, or the Trustee will have any responsibility or obligation to Direct Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (ii) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Bonds; (iii) any notice that is permitted or required to be given to Holders under the Indenture; (iv) the selection by DTC, any Direct Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as Bondholder; or (vi) any other procedures or obligations of DTC, Direct Participants or Indirect Participants under the book-entry system.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated September 27, 2023 (this "Disclosure Agreement"), is executed and delivered by Stanford Health Care, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") U.S. Bank Trust Company, National Association, a national banking association duly organized and existing under the laws of the United States of America ("U.S. Bank") in connection with the issuance of $260,545,000 aggregate principal amount of California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of September 1, 2023 (the "Indenture"), between the California Health Facilities Financing Authority (the "Authority") and U.S. Bank, as trustee (the "Trustee").

The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of September 1, 2023 (the "Loan Agreement"), between the Authority and the Corporation. The obligations of the Corporation under the Loan Agreement are secured by Stanford Health Care Obligation No. 46, issued by the Corporation pursuant to the Supplemental Master Indenture for Obligation No. 46, dated as of September 1, 2023 ("Supplement No. 46"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"). Supplement No. 46 supplements the Amended and Restated Master Indenture of Trust, dated as of June 1, 2011 (the "Master Indenture of Trust"), between the Corporation and the Master Trustee. The Master Indenture of Trust, as may be supplemented, amended or restated from time to time pursuant to its terms, including as supplemented and amended by Supplement No. 46 and as further described in the Official Statement (defined herein), is hereinafter referred to as the Master Indenture.

Pursuant to Section 6.11 of the Indenture and Section 5.12 of the Loan Agreement, the Corporation, acting on its own behalf and on behalf of each other Person who becomes a Member of the Obligated Group (as such terms are defined in the Master Indenture) and U.S. Bank, as dissemination agent (the "Dissemination Agent") covenant and agree as follows:

SECTION 1. **Purpose of this Disclosure Agreement**. This Disclosure Agreement is being executed and delivered by the Corporation and the Dissemination Agent for the benefit of the Holders and Beneficial Owners (as hereinafter defined) of the Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Corporation and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to any such reports, notices or disclosures or with respect to the Rule.

SECTION 2. **Definitions**. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Agreement.

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

"Disclosure Representative" shall mean the Authorized Representative of the Corporation or his or her designee, or such other person as the Authorized Representative of the Corporation shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank Trust Company, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Trustee a written acceptance of such designation.

"Financial Obligation" shall mean for purposes of the Listed Events set out in Section 5(A)(10) and Section 5(B)(8), a: (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"**Holder"** shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(A) or Section 5(B) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

"**Official Statement"** shall mean the final official statement dated September 12, 2023 relating to the Bonds.

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

"Quarterly Report" shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission or any successor agency thereto.

"State" shall mean the State of California.

SECTION 3. **Provision of Annual Reports and Quarterly Reports**. (A) The Corporation shall, or shall upon written direction cause the Dissemination Agent to, not later than five months after the end of the fiscal year of the Obligated Group, commencing with the Annual Report for the fiscal year of the Obligated Group ended August 31, 2023, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include

by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the fiscal year of the Obligated Group changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(H), and the due date for the filing of the Annual Report shall be adjusted by the same number of months.

(B) Not later than two (2) Business Days prior to the date specified in subsection 3(A) for providing the Annual Report to the MSRB, the Corporation shall provide the Annual Report (in accordance with the provisions set forth in Section 14) to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by two (2) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Corporation to determine if the Corporation is in compliance with subsection 3(A).

(C) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection 3(A), the Dissemination Agent shall send a notice, in electronic format, to the MSRB, such notice to be in substantially the form attached as Exhibit A hereto.

(D) Unless the Corporation shall have informed the Dissemination Agent in writing that the Corporation has provided the Annual Report directly to the MSRB, in which case the Corporation shall file a report with the Authority, the Dissemination Agent and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided, the Dissemination Agent shall file a report with the Corporation, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

(E) In addition to providing the Annual Report required to be filed pursuant to subsection 3(A), the Corporation shall, or shall upon written direction, cause the Dissemination Agent to, provide to the MSRB, unaudited financial information on a quarterly basis, such unaudited financial information to be provided for the first fiscal quarter, the second fiscal quarter, and the third fiscal quarter of each fiscal year of the Members of the Obligated Group and to consist of a consolidated balance sheet, a consolidated statement of operations and changes in net assets and a consolidated statement of cash flows of the Obligated Group and such subsidiaries as are required to be included in accordance with generally accepted accounting principles and an update (as of the last day of the most recently ended fiscal quarter) of the information contained in Table 4 entitled "Historical Utilization" set forth under the caption "SERVICES, FACILITIES, AND OPERATIONS — Utilization" in Appendix A of the Official Statement, such unaudited financial information and such update being hereinafter referred to as a "Quarterly Report." Commencing with the Quarterly Report for the fiscal quarter of the Obligated Group ending November 30, 2023, the Corporation shall provide, or cause the Dissemination Agent to provide, a Quarterly Report, consistent with this subsection 3(E) and in accordance with the provisions set forth in Section 14, not later than two months after the end of each of the first three fiscal quarters of each fiscal year of the Members of the Obligated Group. In the event the Corporation shall direct the Dissemination Agent to provide a Quarterly Report to the MSRB, the Corporation shall provide the Quarterly Report to the Dissemination Agent not later than two (2) Business Days prior to the date such Quarterly Report is to be provided to the MSRB.

SECTION 4. **Content of Annual Reports**. The Annual Report of the Obligated Group shall contain or include by reference the following:

(A) The audited financial statements of the Obligated Group for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable in the United States as promulgated from time to time. If the Obligated Group's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the audited financial statements contained in the Official Statement and the audited financial statements shall be filed in the same manner as the Annual Report when such audited financial statements become available.

(B) To the extent not included in the audited financial statements of the Obligated Group (including the notes thereto), the Annual Report shall also include:

1. An update (as of the last day of the most recently ended fiscal year of the Obligated Group) of the information contained in each of the following tables set forth in Appendix A of the Official Statement:

(A) Table 4 entitled "Historical Utilization" set forth under the caption "SERVICES, FACILITIES, AND OPERATIONS — Utilization;"

(B) Table 6 entitled "Consolidated Capitalization" set forth under the caption "SUMMARY OF FINANCIAL INFORMATION — Capitalization;"

(C) Table 7 entitled "Consolidated Liquidity" set forth under the caption "SUMMARY OF FINANCIAL INFORMATION — Liquidity;" and

(D) Table 8 entitled "Maximum Annual Debt Service Coverage" set forth under the caption "SUMMARY OF FINANCIAL INFORMATION — Debt Service Coverage."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation or any other Member of the Obligated Group is an "obligated person" (as such term is defined in the Rule), which have been submitted to the MSRB. The Corporation shall clearly identify each such other document so included by reference. Updates to information referenced in Section 4(B) may involve adding additional financial and operating data, displaying data in a different format or table, or eliminating data that are no longer material.

SECTION 5. **Reporting of Listed Events**.

(A) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten (10) Business Days after the occurrence of the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on the credit enhancements reflecting financial difficulties;

4. substitution of the credit or liquidity providers or any failure by such credit or liquidity providers to perform;

5. adverse tax opinions or issuance by the Internal Revenue Service of a proposed or final determination of taxability or a Notice of Proposed Issue (IRS Form 5701 TEB);

6. tender offers;

7. defeasances;

8. rating changes;

9. bankruptcy, insolvency, receivership or similar event of any Member of the Obligated Group; or

10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of any Member of the Obligated Group, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subsection (9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for any Member of the Obligated Group in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of such Member of the Obligated Group, or if such jurisdiction has been assumed by leaving the existing governing body and officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of such Member of the Obligated Group.

(B) The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten (10) Business Days after the occurrence of the event:

1. unless described in subsection 5(A)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. modifications to rights of Bondholders;

3. optional, unscheduled or contingent Bond calls;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation or acquisition involving any Member of the Obligated Group or the sale of all or substantially all of the assets of any Member of the Obligated Group, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

7. appointment of a successor or additional trustee or the change of name of a trustee; or

8. incurrence of a Financial Obligation of any Member of the Obligated Group, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of any Member of the Obligated Group, any of which affects Holders of Bonds.

(C) If the Corporation learns of the occurrence of a Listed Event described in Section 5(A), or determines that knowledge of a Listed Event described in Section 5(B) would be material under applicable federal securities laws, the Corporation shall within ten (10) Business Days of occurrence file a notice of such occurrence, or cause a notice of such occurrence to be filed, with the MSRB, such notice to be provided in accordance with the provisions set forth in Section 14. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(A)(7) or Section 5(B)(3) need not be given under this Section 5(C) any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(D) The Dissemination Agent shall, within one (1) Business Day, or as soon thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events described in Section 5(B), contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly direct the Dissemination Agent in writing whether or not to report such event pursuant to Section 5(H). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the Dissemination Agent with regular responsibility for the administration of matters related to this Disclosure Agreement. The Dissemination Agent shall not have any duty to determine if any Listed Event is material, reflects financial difficulties or affects the Holders of Bonds.

(E) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event described in Section 5(B), whether because of a notice from the Dissemination Agent pursuant to Section 5(D) or otherwise, the Corporation shall as soon as possible determine if such event would be material under applicable federal securities laws.

(F) If the Corporation has determined that knowledge of the occurrence of a Listed Event described in Section 5(B) would be material under applicable federal securities laws, the Corporation shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(H).

(G) If in response to a request under Section 5(D), the Corporation determines that the Listed Event described in Section 5(B) would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5(H).

(H) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event described in Section 5(B), the Dissemination Agent shall file a notice of such occurrence with the MSRB, such notice to be provided in accordance with the provisions set forth in Section 14.

SECTION 6. **Termination of Reporting Obligation**. The obligations of the Corporation and the Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the

obligations of the Corporation under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation, and the original Corporation shall have no further responsibility hereunder.

SECTION 7. **Dissemination Agent**. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. In the event that the Corporation discharges the Dissemination Agent and does not appoint a successor Dissemination Agent, the Corporation shall perform the obligations of the Dissemination Agent under this Disclosure Agreement.

The Dissemination Agent may resign by providing thirty (30) days written notice to the Corporation and the Trustee. If at any time there is not any other designated Dissemination Agent, the Corporation shall perform the functions of the Dissemination Agent. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to the Dissemination Agent or Trustee hereunder and shall not be deemed to be acting in any fiduciary capacity under this Disclosure Agreement for the Corporation, any other Member of the Obligated Group or the Holders.

It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the MSRB shall be prepared and provided to it by the Corporation. The Dissemination Agent has undertaken no responsibility with respect to any reports, notices or disclosures provided to it under this Disclosure Agreement, and has no liability to any person, including any Holder of Bonds, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Corporation shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the Corporation.

SECTION 8. **Amendment; Waiver**. Notwithstanding any other provision of this Disclosure Agreement, the Corporation and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Corporation, provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder or modifies its rights hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to the provisions of Sections 3(A), 4, 5(A), 5(B) or 8 such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(B) This Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture with respect to amendments to the Indenture which require the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. **Additional Information**. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 10. **Default**. In the event of a failure of the Corporation or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least a majority aggregate principal amount of Bonds Outstanding, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or a Loan Default Event under the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. **Duties, Immunities and Liabilities of Dissemination Agent**. Article VIII of the Indenture, including, without limitation, Section 8.03 of the Indenture, is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the benefits afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which the Dissemination Agent may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. **Beneficiaries**. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters, the Holders and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement.

SECTION 13. **Notices**. All notices or communications herein required or permitted to be given shall be in writing mailed, sent by telecopy or other direct written electronic means, including, without limitation, email, receipt of which shall be confirmed, or delivered as set forth below:

(i) If to the Corporation:

Stanford Health Care
300 Pasteur Drive
M/C 5554
Stanford, California 94305
Attention: Treasury Services
Telephone: (650) 721-1081
Telecopy: (650) 736-1534

(ii) If to the Dissemination Agent and the Trustee:

U.S. Bank Trust Company, National Association
One California Street, Suite 1000
San Francisco, California 94111
Attention: Global Corporate Trust

(iii) If to the Authority:

California Health Facilities Financing Authority
901 P Street, Suite 313
Sacramento, California 95814
Attention: Executive Director
Telephone: (916) 653-2799
Telecopy: (916) 654-5362

With respect to any notice to be delivered to the Corporation by electronic means, including, without limitation, any notice to be delivered by email, such notice shall be addressed to the Chief Financial Officer of the Corporation at the email or other address provided by the Corporation to the Authority and the Trustee and the Dissemination Agent from time to time for delivery by email or other electronic means, with a copy to such other email address or addresses as may be designated from time to time by the Disclosure Representative. With respect to any notice to be delivered to the Trustee or the Dissemination Agent by electronic means, including, without limitation, any notice to be delivered by email, such notice shall be addressed to the representative of the Dissemination Agent or the Trustee, as applicable, at the email or other address provided by the Dissemination Agent or the Trustee to the Corporation and the Authority from time to time for delivery by email or other electronic means. With respect to any notice to be delivered to the Authority by electronic means, including, without limitation, any notice to be delivered by email, such notice shall be addressed to the Executive Director of the Authority at the email or other address provided by the Authority to the Corporation, the Dissemination Agent and the Trustee from time to time for delivery by email or other electronic means.

The Corporation, the Dissemination Agent, the Trustee, and the Authority may, by written notice hereunder, designate any further or different address to which subsequent notices, certificates or other communications shall be sent.

SECTION 14. **Format for Filings.** Any notice, report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, in word searchable pdf format, accompanied by such identifying information as is prescribed by the MSRB. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb/org.

SECTION 15. **Governing Law**. This Disclosure Agreement shall be construed in accordance with and governed by the Constitution and laws of the State of California applicable to contracts made and performed in the State of California.

SECTION 16. **Counterparts**. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

STANFORD HEALTH CARE

By: _____
Chief Financial Officer

U.S. BANK TRUST COMPANY, NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	California Health Facilities Financing Authority (the "Authority")
Name of Issue:	California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2023 Series A
Name of Corporation:	Stanford Health Care (the "Corporation")
Date of Issuance of Bonds:	September 27, 2023

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-referenced Bonds as required by Section 6.11 of the Indenture, dated as of September 1, 2023, between the Authority and U.S. Bank Trust Company, National Association, as trustee, and as required by Section 5.12 of the Loan Agreement, dated as of September 1, 2023, between the Authority and the Corporation. [The Corporation anticipates that the Annual Report will be filed by _____.]

Dated:_____

U.S. Bank Trust Company, National Association,
as dissemination agent on behalf of Stanford Health Care

cc: Authority
Corporation
Trustee

Stanford MEDICINE | Health Care

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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