ANNUAL DISCLOSURE REPORT
OF
STANFORD HEALTH CARE
FOR
THE FISCAL YEAR ENDED AUGUST 31, 2019

DATED DECEMBER 16, 2019

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I. INTRODUCTION

Pursuant to the following Continuing Disclosure Agreements (the "Disclosure Agreements") executed and delivered in connection with the related bond issues (the "Bonds"), Stanford Health Care (the "Corporation") hereby provides its annual disclosure report for the fiscal year ended August 31, 2019 (the "Annual Disclosure Report"):

- Continuing Disclosure Agreement dated June 2, 2008 (the "Series 2008 Disclosure Agreement") relating to the original issue of $156,200,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-1 and A-3;

- Continuing Disclosure Agreement dated June 16, 2010 (the "Series 2010 Disclosure Agreement") relating to the original issue of $296,055,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2010 Series A and B;

- Continuing Disclosure Agreement dated June 15, 2011 (the "Series 2011 Disclosure Agreement") relating to the reoffering of $272,365,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series A-2, A-3 and B-2;

- Continuing Disclosure Agreement dated May 23, 2012, relating to the original issue of $408,320,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2012 Series A and B;

- Continuing Disclosure Agreement dated May 23, 2012, relating to the original issue of $60,000,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Hospital and Clinics) 2012 Series C; and

- Continuing Disclosure Agreement dated June 30, 2015, relating to the original issue of $100,000,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care) 2015 Series A.

- Continuing Disclosure Agreement dated December 28, 2017, relating to the original issue of $454,200,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Health Care), 2017 Series A.

The Bonds are identified together with their corresponding CUSIPs in Appendix A of this Annual Disclosure Report.

Annual Report

The Corporation's Annual Disclosure Report includes this Introduction and the attached appendices. This Annual Disclosure Report is filed with the Municipal Securities Rulemaking Board and is located at http://emma.msrb.org/ in accordance with the Disclosure Agreements and rules promulgated by the Securities Exchange Commission. Additionally, the Treasury department of the Corporation maintains a world-wide web site to which it makes certain disclosure documents available to the general public at https://stanfordhealthcare.org/about-us/bondholder-general-financial-information.html.

Other Matters

This Annual Disclosure Report is provided solely pursuant to the Disclosure Agreements. The filing of this Annual Disclosure Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Corporation or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this Annual Disclosure Report relates (other than as contained in this Annual Disclosure Report), or any other date specified with respect to any of the information contained in this Annual Disclosure Report, or that no other information exists, which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this Annual Disclosure Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Disclosure Report should be construed as a prediction or representation about future financial performance of the Corporation.

Cautionary Statement Regarding Forward-Looking Statements in this Annual Disclosure Report

Certain statements and information in this Annual Disclosure Report constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "assume," or other similar words. Such forward-looking statements include but are not limited to certain interest expense estimates under the caption "DEBT SERVICE REQUIREMENTS" in this Annual Disclosure Report and certain statements in Appendix B attached hereto.

The achievement of the results or other expectations contained in such forward-looking statements involves 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 changes in its expectations or events, conditions or circumstances, on which such statements are based occur.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the applicable Disclosure Agreement.

Dated: December 16, 2019

STANFORD HEALTH CARE

By: /s/ Linda Hoff
Chief Financial Officer

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED AUGUST 31, 2019 AND 2018

The Audited Consolidated Financial Statements of the Corporation and subsidiaries (the "Financial Statements") for the fiscal year ended August 31, 2019 with comparative data for 2018 are presented in Appendix B. See Note 2 to the Financial Statements for a summary of significant accounting policies.

III. DEBT SERVICE REQUIREMENTS

The table below sets forth, for each year ending August 31, the amounts required to be paid by the Corporation for payment of the principal, whether by payment or maturity or mandatory sinking account redemption, and interest on all the outstanding bonds of the Corporation. Interest on all variable rate bonds has been forecasted based on the respective 20-year averages of SIFMA or 1-month LIBOR.

					Debt Service					
Fiscal Year Ending August 31	2008 Series A	2008 Series B(1)	2010 Series A & B	2012 Series A & B	2012 Series C & D(1)	2015 Series A	2015 Series B(1)	2017 Series A	Taxable Series 2018 (2)	Total Debt Service
2020	996,000	2,374,887	6,933,875	25,311,650	2,799,851	4,812,500	1,419,452	21,655,950	27,436,341	93,740,506
2021	2,571,000	2,368,353	6,929,000	24,822,900	2,792,149	4,812,500	1,415,548	21,655,950	27,432,760	94,800,160
2022	843,750	2,371,620	-	25,295,500	2,796,000	4,812,500	1,417,500	28,602,825	27,436,277	93,575,972
2023	-	2,371,620	-	24,801,500	2,796,000	4,812,500	1,417,500	30,693,825	27,431,416	94,324,361
2024	-	2,374,887	-	17,000,000	4,686,149	4,812,500	1,419,452	33,956,075	27,432,703	91,681,766
2025	-	2,368,353	-	17,000,000	4,739,633	4,812,500	1,415,548	37,318,825	27,434,475	95,089,333
2026	-	2,371,620	-	17,000,000	4,787,852	4,812,500	1,417,500	37,281,450	27,431,256	95,102,178
2027	-	2,371,620	-	17,000,000	4,840,834	4,812,500	1,417,500	37,176,450	27,432,478	95,051,382
2028	-	2,374,887	-	17,230,000	4,895,843	4,812,500	1,419,452	37,126,950	27,432,476	95,292,108
2029	-	2,368,353	-	17,318,500	4,958,357	4,812,500	1,415,548	37,054,825	27,435,586	95,363,669
2030	-	2,371,620	-	17,352,000	5,014,718	4,812,500	1,417,500	37,012,450	27,436,145	95,416,933
2031	-	2,371,620	-	17,423,000	5,075,781	4,812,500	1,417,500	36,942,200	27,433,582	95,476,183
2032	-	2,374,887	-	17,479,500	5,143,365	4,812,500	1,419,452	36,872,075	27,432,234	95,534,013
2033	-	2,368,353	-	17,527,000	5,213,815	4,812,500	1,415,548	36,848,075	27,431,342	95,616,634
2034	-	2,371,620	-	17,720,750	5,282,112	4,812,500	1,417,500	36,645,575	27,435,052	95,685,109
2035	-	2,371,620	-	17,938,250	5,354,998	4,812,500	1,417,500	36,429,800	27,432,604	95,757,273
2036	-	2,374,887	-	22,267,750	5,433,764	4,812,500	1,419,452	32,085,400	27,433,241	95,826,993
2037	-	2,368,353	-	22,553,000	5,515,895	4,812,500	1,415,548	32,137,650	27,431,107	96,234,054
2038	-	2,371,620	-	20,015,250	5,599,645	4,812,500	1,417,500	34,793,025	27,435,255	96,444,795
2039	-	2,371,620	-	19,449,250	6,223,169	4,812,500	1,417,500	34,824,500	27,434,735	96,533,275
2040	-	2,374,887	-	19,862,000	6,402,612	4,812,500	1,419,452	34,318,200	27,433,694	96,623,346
2041	-	2,368,353	-	21,985,500	6,849,637	4,812,500	1,415,548	31,869,900	27,431,183	96,732,621
2042	-	33,110,958	-	26,907,750	7,756,050	4,812,500	1,417,500	-	27,431,158	101,435,916
2043	-	33,712,648	-	26,963,000	7,922,662	4,812,500	1,417,500	-	27,432,481	102,260,791
2044	-	34,795,916	-	26,616,500	8,046,770	4,812,500	1,419,452	-	27,434,013	103,125,151
2045	-	35,605,959	-	26,546,750	8,215,216	4,812,500	1,415,548	-	27,434,616	104,030,588
2046	-	36,599,255	-	26,334,250	8,365,123	4,812,500	1,417,500	-	27,433,151	104,961,779
2047	-	-	-	56,609,750	15,067,414	4,812,500	1,417,500	-	27,433,384	105,340,548
2048	-	-	-	56,377,750	15,513,720	4,812,500	1,419,452	-	27,433,989	105,557,412
2049	-	-	-	56,196,250	15,919,437	4,812,500	1,415,548	-	27,433,636	105,777,371
2050	-	-	-	56,002,750	16,347,636	4,812,500	1,417,500	-	27,435,902	106,016,288
2051	-	-	-	55,807,500	16,788,035	4,812,500	1,417,500	-	-	78,825,535
2052	-	-	-	-	-	36,657,500	25,817,078	-	-	62,474,578
2053	-	-	-	-	-	36,652,750	25,973,524	-	-	62,626,274
2054	-	-	-	-	-	36,655,500	26,122,791	-	-	62,778,291
Total	4,410,750	226,000,378	13,862,875	848,715,550	227,144,242	263,965,750	123,273,392	743,301,975	850,438,270	3,301,113,182

(1) Assumes interest on all variable rate bonds and all variable rate swap receipts are based on the respective 20-year averages of SIFMA or 1-month LIBOR
(2) Assumes interest is smoothed as level debt service over 30 years

IV. SELECTED FINANCIAL AND OPERATING DATA WITH RESPECT TO THE FISCAL YEARS ENDED AUGUST 31, 2019 AND 2018

The Selected Financial and Operating Data with Respect to the Fiscal Years Ended August 31, 2019 and 2018 below should be read in conjunction with the Financial Statements and accompanying notes.

The tables below present (i) Historical Utilization, (ii) Historical Consolidated Capitalization, (iii) Liquidity, (iv) Maximum Annual Debt Service Coverage, and (v) Sources of Gross Patient Service Revenue.

(i)
Historical Utilization

	Three Months Ended August,	
	2019	**2018**
Discharges		
Acute	26,371	26,067
Behavioral Health	816	837
Total	**27,187**	**26,904**
Patient Days		
Acute	147,372	144,224
Behavioral Health	8,575	9,321
subtotal	**155,947**	**153,545**
Short Stay OP	16,181	16,881
Total	**172,128**	**170,426**
Average Daily Census		
Acute	403.8	395.1
Behavioral Health	23.5	25.5
Total	**427.3**	**420.7**
Average Length of Stay		
Acute	5.59	5.53
Behavioral Health	10.5	11.1
Total	**5.74**	**5.71**
Case Mix Index	2.44	2.45
Emergency room visits*	78,650	76,115
Short Stay OP procedures	45,279	44,018
Other Outpatient visits	864,567	805,401
Surgeries		
Inpatient	13,211	12,942
Outpatient	24,770	24,032
Total	**37,981**	**36,974**

Source: Corporation records

*** ER visits include patients who got admited as inpatients.**

(ii)
Historical Consolidated Capitalization
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2019	**2018**
Debt		
Long-term debt, net of current portion	$ 1,592,979	$ 1,711,967
Current portion	114,235	14,505
Debt subject to remarketing	228,200	228,200
Total debt*	1,935,414	1,954,672
Consolidated net assets	3,545,875	3,304,125
Total consolidated capitalization	$ 5,481,289	$ 5,258,797
Debt as a Percentage of Total Consolidated Capitalization	35.3%	37.2%

* Includes unamortized original issue premium.

(iii)
Liquidity
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2019	**2018**
Cash and cash equivalents	$ 505,509	$ 652,256
Investments	1,155,156	982,084
Investments in University managed pool	1,478,554	1,400,839
Less temporarily and permanently restricted assets	(108,056)	(93,800)
Total liquid assets	$ 3,031,163	$ 2,941,379
Days Cash On Hand	229.7	243.3

(iv)
Maximum Annual Debt Service Coverage
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2019	**2018**
Excess of revenues over expenses	$ 364,460	$ 470,243
Depreciation and amortization expense	190,283	176,742
Interest expense	42,431	35,434
Change in value of University managed pools	(76,748)	(110,983)
Interest rate swap mark to market adjustment	134,269	(63,439)
Earnings on Equity Method Investments	(8,315)	(7,048)
Loss on extinguishment of debt and swaps	0	47,613
Funds available for debt service	$646,380	$548,562
Maximum annual debt service	$106,016	$105,984
Maximum Annual Debt Service Coverage	6.1	5.2

(v)
Sources of Gross Patient Service Revenue

	Fiscal Year Ended August 31,	
	2019	2018
Medicare	35.5%	35.5%
Medi-Cal	3.1	2.9
Managed Care – Capitation	-	-
Managed Care – Discounted Fee for Services	55.6	55
Indemnity Insurance, Self-Pay, Other	5.8	6.6
Total	100%	100%

APPENDIX A

Bond Issues and Related CUSIP Numbers

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Hospital and Clinics)
2008 Series A-1

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LHN0	11/15/2019	4.00	225,000
13033LHP5	11/15/2020	4.00	675,000

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Hospital and Clinics)
2008 Series A-2

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LND5	11/15/2019	4.00	325,000
13033LNE3	11/15/2020	5.00	1,000,000
13033LNF0	11/15/2021	5.00	450,000

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Hospital and Clinics)
2008 Series A-3

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LNR4	11/15/2019	4.00	275,000
13033LNS2	11/15/2020	5.00	800,000
13033LNT0	11/15/2021	4.00	375,000

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Hospital and Clinics)
2008 Series B-2-1

CUSIP	Maturity Date	Current Commercial Paper Interest Rate (%)	Original Principal Amount
13033LNX1	11/15/2045	1.45	$ 42,050,000

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Hospital and Clinics)
2008 Series B-2-2

CUSIP	Maturity Date	Current Commercial Paper Interest Rate (%)	Original Principal Amount
13033LNY9	11/15/2045	1.32	$ 42,050,000

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Hospital and Clinics)
2010 Series A

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LJA6	11/15/2019	5.00	6,435,000
13033LJB4	11/15/2020	5.00	6,760,000

California Health Facilities Financing Authority
Revenue Bonds
(Stanford Hospital and Clinics)
2012 Series A

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LYQ4	08/15/2032	5.00	$ 1,960,000
13033LYR2	08/15/2042	5.00	43,380,000
13033LYS0	08/15/2051	5.00	294,660,000

California Health Facilities Financing Authority
Revenue Bonds
(Stanford Hospital and Clinics)
2012 Series B

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LZA8	08/15/2020	4.00	2,500,000
13033LZH3	08/15/2020	5.00	4,475,000
13033LZB6	08/15/2021	4.00	6,810,000
13033LZC4	08/15/2022	4.00	875,000
13033LZJ9	08/15/2022	5.00	6,680,000
13033LZD2	08/15/2023	5.00	7,430,000

California Health Facilities Financing Authority
Revenue Bonds
(Stanford Hospital and Clinics)
2012 Series C

CUSIP	Maturity Date	Initial Windows Spread to SIFMA (%)	Original Principal Amount
13033LZN0	08/15/2051	0.08	$ 60,000,000

California Health Facilities Financing Authority
Revenue Bonds
(Stanford Health Care)
2015 Series A

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033L8Q3	08/15/2052	4.25	$ 25,000,000
13033L8P5	08/15/2054	5.00	$ 75,000,000

California Health Facilities Financing Authority
Refunding Revenue Bonds
(Stanford Health Care)
2017 Series A

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13032UPY8	11/15/2021	5.00	$7,125,000
13032UPZ5	11/15/2022	5.00	$9,635,000
13032UQA9	11/15/2023	5.00	$13,475,000
13032UQB7	11/15/2024	5.00	$17,615,000
13032UQC5	11/15/2025	5.00	$18,480,000
13032UQD3	11/15/2026	5.00	$19,320,000
13032UQE1	11/15/2027	5.00	$20,260,000
13032UQF8	11/15/2028	5.00	$21,225,000
13032UQG6	11/15/2029	5.00	$22,270,000
13032UQH4	11/15/2030	5.00	$23,340,000
13032UQJ0	11/15/2031	5.00	$24,465,000
13032UQK7	11/15/2032	5.00	$25,695,000
13032UQL5	11/15/2033	5.00	$26,805,000
13032UQM3	11/15/2034	5.00	$23,390,000
13032UQN1	11/15/2035	5.00	$19,310,000
13032UQP6	11/15/2036	5.00	$26,160,000
13032UQQ4	11/15/2037	5.00	$30,225,000
13032UQR2	11/15/2040	4.00	$105,405,000

APPENDIX B

Audited Consolidated Financial Statements
for the Fiscal Years Ended
August 31, 2019 and 2018

Stanford Health Care

Consolidated Financial Statements
and Accompanying Consolidating Information
August 31, 2019 and 2018

Stanford Health Care
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Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the accompanying consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries, which comprise the consolidated balance sheets as of August 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stanford Health Care and its subsidiaries as of August 31, 2019 and 2018, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, SHC changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

December 3, 2019

Stanford Health Care
Consolidated Balance Sheets
August 31, 2019 and 2018
(in thousands of dollars)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 505,509	$ 652,256
Assets limited as to use, held by trustee	11	-
Short term investments	399,639	391,314
Patient accounts receivables, net of allowance for doubtful accounts of $208,000 at August 31, 2018	685,425	623,077
Other receivables	93,529	79,036
Inventories	69,831	58,884
Prepaid expenses and other	84,524	52,886
Total current assets	1,838,468	1,857,453
Investments	657,554	509,781
Investments at equity	97,963	80,989
Investments in University managed pools	1,478,554	1,400,839
Property and equipment, net	3,691,015	3,279,048
Other assets	78,360	86,739
Total assets	$ 7,841,914	$ 7,214,849
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 557,284	$ 449,192
Accrued salaries and related benefits	275,099	209,490
Due to related parties	103,779	98,942
Third-party payor settlements	29,918	34,474
Current portion of long-term debt	114,235	14,505
Debt subject to remarketing arrangements	228,200	228,200
Self-insurance reserves and other	59,424	54,933
Total current liabilities	1,367,939	1,089,736
Self-insurance reserves and other, net of current portion	174,040	139,841
Swap liabilities	316,796	182,527
Other long-term liabilities	150,464	122,944
Pension liability	17,048	6,650
Long-term debt, net of current portion	1,592,979	1,711,967
Total liabilities	3,619,266	3,253,665
Net assets:		
Without donor restrictions:		
Stanford Health Care	3,518,964	3,285,398
Noncontrolling interests	26,911	18,727
Total without donor restrictions	3,545,875	3,304,125
With donor restrictions	676,773	657,059
Total net assets	4,222,648	3,961,184
Total liabilities and net assets	$ 7,841,914	$ 7,214,849

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, 2019 and 2018
(in thousands of dollars)

	2019	2018
Operating revenues and other support:		
Net patient service revenue		$ 4,735,366
Provision for doubtful accounts		(57,437)
Net patient service revenue	$ 5,113,052	4,677,929
Premium revenue	106,130	92,654
Other revenue	157,757	135,597
Net assets released from restrictions used for operations	13,063	4,366
Total operating revenues and other support	5,390,002	4,910,546
Operating expenses:		
Salaries and benefits	2,302,399	2,091,260
Professional services	41,300	46,146
Supplies	727,136	667,379
Purchased services	1,350,708	1,216,992
Depreciation and amortization	190,283	176,742
Interest	42,431	35,434
Other	483,258	477,661
Expense recoveries from related parties	(130,800)	(121,727)
Total operating expenses	5,006,715	4,589,887
Income from operations	383,287	320,659
Interest and investment income	42,904	31,122
Earnings on equity method investments	8,315	7,048
Increase in value of University managed pools	76,748	110,984
Swap interest and change in value of swap agreements	(146,794)	48,043
Loss on extinguishment of debt	-	(47,613)
Excess of revenues over expenses	364,460	470,243
Other changes in net assets without donor restrictions:		
Transfer to Stanford University	(120,090)	(98,183)
Transfer from Lucile Salter Packard Children's Hospital	-	2,068
Change in net unrealized gains on investments	22,825	9,438
Net assets released from restrictions used for:		
Purchase of property and equipment	977	309
Change in pension and postretirement liability	(26,422)	28,277
Noncontrolling capital distribution	-	(1,200)
Increase in net assets without donor restrictions	241,750	410,952
Changes in net assets with donor restrictions:		
Transfer (to) from Stanford University	(316)	2,177
Contributions and other	31,079	44,983
Investment income	815	712
Gains on University managed pools	2,176	2,467
Net assets released from restrictions used for:		
Operations	(13,063)	(4,366)
Purchase of property and equipment	(977)	(309)
Increase in net assets with donor restrictions	19,714	45,664
Increase in net assets	261,464	456,616
Net assets, beginning of year	3,961,184	3,504,568
Net assets, end of year	$ 4,222,648	$ 3,961,184

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2019 and 2018
(in thousands of dollars)

	2019	2018
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 253,280	$ 459,949
Change in noncontrolling interests	8,184	(3,333)
Total change in net assets	261,464	456,616
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	-	47,613
Depreciation and amortization	188,878	174,665
Provision for doubtful accounts	-	57,437
Change in fair value of interest rate swaps	134,269	(63,439)
Increase in value of University managed pools	(76,748)	(110,984)
Unrealized gains on investments	(23,391)	(10,700)
Excess of income on equity method investees over distributions received	(6,241)	(2,047)
Contributions received for long lived assets or endowment	(45,967)	(37,958)
Net equity transfers to/from related parties	120,406	93,938
Premiums received from bond issuance	-	76,138
Changes in operating assets and liabilities:		
Patient accounts receivable	(62,348)	(69,780)
Due to related parties	(8,388)	4,274
Other receivables, inventory, other assets, prepaid expenses and other	(48,251)	1,108
Accounts payable, accrued liabilities and pension liabilities	107,407	89,663
Accrued salaries and related benefits	65,609	(46,269)
Third-party payor settlements	(4,556)	16,325
Self-insurance reserves	38,690	18,104
Cash provided by operating activities	640,833	694,704
Cash flows from investing activities:		
Purchases of investments	(580,481)	(593,592)
Sales of investments	446,579	47,143
Purchases of investments at equity	(11,244)	(10,843)
Purchases of investments in University managed pools	(2,850)	(1,524)
Sales of investments in University managed pools	2,586	119
Swap settlement payments, net	(12,595)	(15,393)
(Increase) decrease in assets limited as to use and other	(11)	58,134
Purchases of property and equipment	(553,642)	(474,735)
Cash used in investing activities	(711,658)	(990,691)
Cash flows from financing activities:		
Proceeds from issuance of debt	-	954,200
Repayment on revolver	-	(135,000)
Costs of issuance of debt	(98)	(6,783)
Payment of long-term debt and capital lease obligations	(14,610)	(544,331)
Contributions received for long lived assets or endowment	45,952	40,747
Net equity transfers to/from related parties	(107,166)	(70,699)
Cash (used in) provided by financing activities	(75,922)	238,134
Net decrease in cash and cash equivalents	(146,747)	(57,853)
Cash and cash equivalents, beginning of year	652,256	710,109
Cash and cash equivalents, end of year	$ 505,509	$ 652,256
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 43,602	$ 33,033
Supplemental disclosures of non cash information:		
Increase in payables for property and equipment	$ 48,461	$ 111,562
Equity transfers to related parties, net	(47,096)	(28,563)
Assets and liabilities acquired under capital leases	-	479

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

1. Organization

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

The Board of Trustees of Leland Stanford Junior University (the "University") is the sole corporate member of SHC and LPCH. As part of their ongoing operations, SHC and LPCH engage in certain related party transactions as described further in Note 13.

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

UHA, a physician medical foundation, supports SHC's mission of delivering quality care to the community and conducting research and education. In addition, UHA leads the development of a high quality clinical delivery network, built on collaboration with and sponsorship of community hospitals, on behalf of the SoM, SHC, and UHA physicians. The SoM and SHC are the members of UHA, and appoint directors to the governing board. The UHA bylaws afford control to SHC. Effective January 1, 2011, SHC entered into a sponsorship agreement with UHA whereby SHC agreed to certain funding for the development and operation of UHA and continued additional funding for future or alternative clinical sites of UHA.

SHC-VC, a leading community hospital system located in the East Bay's Tri-Valley region of Pleasanton, Livermore and Dublin, completed an affiliation agreement with SHC effective May 18, 2015. SHC is the sole corporate member of SHC-VC.

SBC is a limited liability company organized effective July 31, 2015. SBC 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. On September 30, 2015, SBC completed the acquisition of the Stanford Blood Center from the University for $36,000.

SEROC was originally formed as a joint venture between SHC and Emanuel Medical Center ("EMC"). On July 31, 2014, EMC transferred its membership interest to 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, 2019 and 2018. 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, 2019 and 2018.

1. Organization (Continued)

CareCounsel, a leading provider of employer-sponsored health advocacy and health care assistance services, was acquired by SHC effective July 18, 2012. The Bay Area company was founded in 1996 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 70.1% and 80.6% for the years ended August 31, 2019 and 2018, respectively. LPCH's share of net assets in SUMIT was 29.9% and 19.4% for the years ended August 31, 2019 and 2018, respectively, and is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

TRA was formed on September 19, 2012 and began operations on December 1, 2012. TRA provides risk management services to SHI, the owners of SHI and other affiliated and unaffiliated parties and serves as attorney-in-fact to PEAC. In October 2017, TRA acquired the assets and assumed the liabilities of PHT Services, Ltd., a South Carolina risk management services corporation. SHC's share of net assets in TRA was 82% for the years ended August 31, 2019 and 2018. The remaining interest of 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2019 and 2018.

PEAC, a captive insurance carrier, provides insurance coverage to UHA, Packard Children's Health Alliance and other affiliated parties. SHC's share of net assets in PEAC was 63.3% and 68.5% for the years ended August 31, 2019 and 2018, respectively. The remaining interest of 36.7 % and 31.5% for the years ended August 31, 2019 and 2018, 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 of Santa Clara, Alameda and San Mateo Counties through their Medicare Advantage Plan and is controlled solely by SHC. This service is offered to Medicare-eligible residents of Santa Clara, Alameda and San Mateo Counties effective January 1, 2015, 2018 and 2019, respectively.

SIMS RAK FZE was formed in January 2016 to provide consulting and project management services in the United Arab Emirates. There was no significant activity for the years ended August 31, 2019 and 2018.

SMI Hong Kong was formed in May 2016, as a holding company for business activities in China. There was no significant activity for the years ended August 31, 2019 and 2018.

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 restricted revenue when received and when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of operations and changes in net assets. Investment income on 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.

Assets Limited as to Use, Held by Trustee
Assets limited as to use include various accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash and cash equivalents and short-term investments, recorded at cost, which approximates fair value. Amounts required to fund current liabilities of SHC have been classified as current assets in the consolidated balance sheet at August 31, 2019. There were no assets limited as to use in the consolidated balance sheet at August 31, 2018.

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, dividends and impairment loss 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 without donor restricted funds other than trading securities are separately reported below the excess of revenues over expenses.

Investments at Equity

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

The mission of StartX, a California nonprofit public benefit corporation, is to accelerate the development of students, faculty and alumni of the University identified by StartX as high potential entrepreneurs through an experiential educational program. StartX Fund is a California limited liability company created to support the continued experiential education of participants in the StartX accelerator program. SHC's interest in StartX Fund was 33% for the years ended August 31, 2019 and 2018.

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, 2019 and 2018.

PPA II is a California limited liability company which owns and operates a medical office building in Pleasanton. SHC-VC's interest in PPA II was 39% for the years ended August 31, 2019 and 2018.

AIMS is a Delaware limited liability company which provides research and development of applications to reduce suicide and self-harm. TRA and Mersey Care NHS Foundation Trust, a United Kingdom based company, each have a 50% interest in AIMS for the year ended August 31, 2019 and 2018.

Investments in University Managed Pools

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

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 the increases or decreases in the value of SHC's share of the Pools. All investment gains and losses and increases and decreases in share value are treated as realized and unrealized and included in the excess of revenues over expenses.

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

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

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

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

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

Operating liquidity is monitored daily and reported periodically to senior management and the Board. When determining the appropriate allocation of funds across the various investment portfolios, SHC limits the percentage of the investment portfolio that is not readily realizable. Additionally, SHC maintains a cushion of excess liquidity that would be sufficient to fully fund operations and commitments for an extended period during which funding from normal sources is disrupted. The primary measure used to assess SHC's liquidity is "Days Cash on Hand" during such period of liquidity disruption. This measure assumes that SHC is unable to generate funds from normal business operations or from the issuance of debt while continuing to meet obligations to maintain operations and repayment of contractual principal and interest payments owed. Once a sufficient level of liquidity is established, excess cash is invested in the intermediate or long-term portfolios. The intermediate-term portfolio is primarily invested in fixed income and equities mutual funds which can be liquidated on short notice while the long-term portfolio is invested in shares of the MP. Per SHC's agreement with the Stanford Management Company (''SMC''), SHC can withdraw annually up to 10% of its investments with SMC after providing a six months 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 statement of financial position date for general expenditure at August 31, 2019 consist of following:

		2019
Financial assets:		
Cash and cash equivalents	$	505,509
Accounts receivable, net		685,425
Short-term investments		399,639
Investments in Mutual funds		504,872
10% of long-term investments in Merged Pool		144,974
Financial assets available to meet cash needs for general expenditure within one year	$	2,240,419
Liquidity resources:		
Revolving line of credit capacity		200,000
Total financial assets and liquidity resources available within one year	$	2,440,419

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 40 years
Equipment	3 to 20 years

Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. 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.

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

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

2. Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets in property and equipment. Asset retirement costs are subsequently accreted over the useful lives of the related 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. In accordance with current accounting guidance, the discount rates were determined using the risk free rate adjusted for the risk of donor default. Current and long-term portions of contributions receivable are included in other receivables and other assets in the consolidated balance sheets, respectively, and contribution revenue is included in the consolidated financial statements in the appropriate net asset category. Amortization of the discount is included in contributions and other in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

Premiums, Discounts and Deferred Financing Costs on Long-Term Debt

Premiums and discounts arising from the original issuance of long-term debt are amortized on either the effective interest method or the straight-line basis, which approximates the effective interest method, over the life of the debt. Deferred financing costs represent costs incurred in conjunction with the issuance of SHC's long-term debt. These costs are amortized on a straight-line basis, which approximates the effective interest method, over the life of the debt. The unamortized portion of these premiums, discounts and deferred financing costs are included in long-term debt on the consolidated balance sheets.

Interest Rate Swap Agreements

SHC entered into several interest rate swap agreements to reduce the effect of interest rate fluctuation on its variable rate bonds. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. Changes in the fair value of interest rate swaps are included in excess of revenues over expenses. In fiscal year 2019 and 2018, 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.

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 marketable investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in pension and postretirement liability and other changes related to noncontrolling interests.

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which SHC expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Contracts, laws, and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The transaction price is based on standard charges for services provided to patients, reduced by applicable contractual adjustments, discounts to under and uninsured patients, and implicit pricing concessions. The estimates of contractual adjustments and discounts are based on contractual agreements, discount policy, and historical collection experience. The process for estimating the ultimate collectability of patient accounts receivables involves historical collection experience, changes in contracts with payors, and significant assumptions and judgment. Account balances are written off as an implicit pricing concession when management believes it is probable the receivable will not be recovered.

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (continued)

SHC has elected to apply the practical expedient allowed under FASB ASC 606-10-10-4 for applying the new revenue standard 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

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

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

Income Taxes

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

2. Summary of Significant Accounting Policies (Continued)

Income Taxes (continued)

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts SHC in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income ("UBTI") by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax, and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the U.S. federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the Institution with calculating income and excise tax liabilities. SHC continues to evaluate the impact of the Act on current and future tax positions.

Self-Insurance Plans

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

- ***Professional Liability*** — SHC, SHC-VC and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC-VC and SBC also maintain professional liability reserves for claims not covered by SUMIT which total $8,080, $933 and $61 as of August 31, 2019, respectively. As of August 31, 2018, this coverage was $7,304, $1,376 and $75 for SHC, SHC-VC and SBC, respectively. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence. The next $165,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.

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

- ***Workers' Compensation*** **—** SHC, SHC-VC and SBC purchase insurance for workers' compensation claims with a $750 deductible per occurrence. Workers' compensation insurance provides statutory limits for the State of California. An actuarial estimate of retained losses (or losses retained within the deductible) has been used to record a liability.

- ***Health and Dental*** **—** Liabilities for health and dental claims for current employees are based on estimated costs.

Fair Value of Financial Instruments

Due to the short-term nature of cash and cash equivalents, accounts payable and accrued liabilities, and accrued salaries and related benefits, their carrying value approximates their fair value. The fair value of the amounts payable under third-party reimbursement contracts is not readily determinable.

Concentration of Credit Risk

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

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

2. Summary of Significant Accounting Policies (Continued)

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.

Recent Pronouncements – effective in the years ended August 31, 2019 and 2018

The FASB ASC is the sole source of authoritative non-governmental U.S. generally accepted accounting principles.

Consolidation - In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-02, *Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, which reinstates the presumption that a not-for-profit ("NFP") entity that is a general partner controls a limited partnership. The amendments in this update also add guidance on when an NFP limited partner should consolidate a for-profit limited partnership. The guidance was effective for SHC during the fiscal year ending August 31, 2018 and did not materially impact SHC's consolidated financial statements.

Fair value - In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient as well as limiting disclosure requirement to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for SHC during the fiscal year ending August 31, 2018, and should be applied on a retrospective basis for each period presented. SHC has adopted this guidance in fiscal year 2018 as described further in Note 7.

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

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

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in the years ended August 31, 2019 and 2018 (continued)
Revenue recognition - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. SHC adopted ASU 2014-09 on September 1, 2018 using the modified retrospective method of transition. SHC performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, SHC performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts are presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets and treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total without donor restrictions, excess of revenues over expenses or total net assets.

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

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

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

Leases - In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The guidance is effective for SHC during the fiscal year ending August 31, 2020, and should be applied on a retrospective or modified retrospective basis. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in future periods (continued)
Statement of cash flows - In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance is effective for SHC during the fiscal year ending August 31, 2020, and should be applied on a retrospective basis. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In November 2016, the FASB issued an ASU 2016-18, *to add or clarify Guidance on the Classification and Presentation of Restricted Cash in the Statement of Cash Flows.* This update requires the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for SHC during the fiscal year ending August 31, 2020. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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

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

3. Net Patient Service Revenue

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

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

  Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. SHC is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare administrative contractor. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially completed. SHC's Medicare cost reports have been audited by the Medicare administrative contractor through August 31, 2010. Professional services are reimbursed based on a fee schedule.

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

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

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

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

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

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 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 year ended August 31, 2019 is as follows:

	2019
Medicare	$ 937,369
Medi-Cal	150,184
Managed Care - Discounted Fee For Services	3,871,597
Self pay and other	115,527
Related party	38,375
Net patient service revenue	$ 5,113,052

Patient service revenue, net of contractual allowances (but before provision for doubtful accounts), by major payor for the year ended August 31, 2018 is as follows:

	2018
Medicare	$ 892,195
Medi-Cal	140,788
Managed Care - Discounted Fee For Services	3,498,434
Self pay and other	160,605
Related party	43,344
Patient service revenue, net of contractual allowances	$ 4,735,366
Provision for doubtful accounts	(57,437)
Net patient service revenue	$ 4,677,929

SHC recognized net patient service revenue adjustments of $20,336 and $880 as a result of prior years favorable developments related to reimbursement for the years ended August 31, 2019 and 2018, respectively. SHC also recognized revenues of $0 and $1,556 as a result of prior years appeals settled during the year ended August 31, 2019 and 2018, respectively.

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:

	2019	2018
Blue Cross	26%	24%
Medicare	13%	13%
Aetna	11%	10%
Blue Shield	10%	10%
United Health	10%	9%

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. As a result of certain changes required by ASU 2014-09, the majority of the SHC's provision for uncollectible accounts is recorded as a direct reduction to net patient service revenue instead of being presented as a separate line item on the consolidated statements of operations and changes in net assets. The adoption of ASU 2014-09 has no impact on the SHC's patient receivables as it was historically recorded net of allowance for uncollectible accounts and contractual adjustments on the consolidated balance sheets.

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program

The State of California enacted Senate Bill 239 in October 2013 which established the Hospital Quality Assurance Fee ("HQAF") and Hospital Fee programs for January 1, 2014 through June 30, 2019. 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 programs for January 1, 2014 through June 30, 2019.
- Managed Care programs for the expansion population for January 1, 2014 through December 31, 2016.
- Managed Care programs for the non-expansion population for January 1, 2014 through December 31, 2016.

For the years ended August 31, 2019 and 2018, respectively, SHC recognized $93,880 and $89,718 in net patient service revenue for Medi-Cal Fee-For-Service ("FFS") and Managed Care supplemental payments provided for under the California provider fee programs.

For the years ended August 31, 2019 and 2018, respectively, SHC recognized $39,544 and $77,302 in other expense for HQAF paid to the California Department of Health Care Services. Expenses were paid for the same CMS approved programs noted above.

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

SHC recorded $31,602 and $49,546 in deferred revenue as of August 31, 2019 and 2018, respectively, pending CMS approval. SHC also recorded $22,214 and $0 as prepaid expense for the years ended August 31, 2019 and 2018 respectively, pending CMS approval. Deferred revenue and prepaid expenses associated with unapproved Hospital Fee Program will be recognized as revenue and expense respectively, upon CMS approval.

The Fee-For-Service and Managed Care programs for July 1, 2019 through December 31, 2021 have been modeled by the State and will then be sent to CMS for approval. Given the State has not submitted the new program model to CMS for approvals, no revenue or expense has been recorded in fiscal year 2019 for these programs.

(in thousands of dollars)

4. Charity Care, Uncompensated Costs and Community Benefits

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

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

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

	2019	2018
Charity care at established rates	$ 112,665	$ 112,471
Estimated cost of charity care, net	23,978	24,813

The estimated cost of providing charity care is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on SHC's total expenses divided by gross patient service charges. SHC received $410 and $876 during the years ended August 31, 2019 and 2018, respectively, from contributions that were restricted for the care of indigent patients.

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

	2019	2018
Charity care	$ 23,978	$ 24,813
Medi-Cal	277,994	258,003
Medicare	854,133	718,188
Total	$ 1,156,105	$ 1,001,004

(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 a discount rate of 1.88% for new receivables recorded in fiscal year 2019 and 3.21% for receivables recorded in fiscal year 2018.

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

	2019	2018
In one year or less	$ 29,691	$ 34,906
Between one year and five years	33,348	52,023
More than five years	6,021	7,000
	69,060	93,929
Less: discount/allowance	(6,664)	(9,394)
Total contributions receivable, net	62,396	84,535
Less: current portion	(27,242)	(31,847)
Contributions receivable, net of current portion	$ 35,154	$ 52,688

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

	2019	2018
Plant replacement and expansion	$ 67,259	$ 90,954
Other patient and clinical services	1,801	2,975
Total	$ 69,060	$ 93,929

There were no conditional pledges at August 31, 2019 and 2018.

6. Investments and Investments in University Managed Pools

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

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Short term investments:				
Mutual funds	$ 397,058	$ 399,639	$ 390,244	$ 391,314
Investments:				
Cash and cash equivalents	$ 62,205	$ 62,205	$ 48,583	$ 48,583
Mutual funds	563,887	585,071	450,914	460,302
Public equity	488	3,761	-	-
Other	385	6,517	873	896
Total	$ 626,965	$ 657,554	$ 500,370	$ 509,781

(in thousands of dollars)

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

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

	Fair Value	
	2019	**2018**
Investments in University managed pools:		
Merged Pool	$1,472,256	$1,393,429
Expendable Funds Pool	6,298	7,410
Total	$1,478,554	$1,400,839

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	
	2019	**2018**
Cash and Cash Equivalents	1%	2%
Fixed Income	6%	7%
Public Equities	26%	26%
Real Estate	8%	7%
Natural Resources	6%	9%
Absolute Return	19%	20%
Private Equities	34%	29%
Total	100%	100%

7. Fair Value Measurements

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

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

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

(in thousands of dollars)

7. Fair Value Measurements (Continued)

These levels are:

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

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

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

The 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:

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

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 652,256	$ -	$ -	$ 652,256
Short term investments:				
Mutual funds	391,314	-	-	391,314
Investments:				
Cash and cash equivalents	48,583	-	-	48,583
Mutual funds	460,302	-	-	460,302
Other	-	-	896	896
Investments	508,885	-	896	509,781
Total assets in the fair value hierarchy	$ 1,552,455	$ -	$ 896	1,553,351
Investments measured at NAV practical expedient:				
Investments in University managed pools				1,400,839
Total assets at fair value				$ 2,954,190
Liabilities				
Interest rate swap instruments	$ -	$ 182,527	$ -	$ 182,527

(in thousands of dollars)

7. Fair Value Measurements (Continued)

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

	2019	2018
Balance, beginning of year	$ 896	$ 713
Purchases	-	177
Transfer out to Level 1	(511)	-
Unrealized gain	6,132	6
Balance, end of year	$ 6,517	$ 896

Transfers in and out of Level 3 include situations where observable inputs have changed. All transfer amounts are based on the fair value at the end of the fiscal year. During the year ended August 31, 2019, $3,761 which includes $3,250 of unrealized gain was transferred from Level 3 to Level 1 due to quoted market price data becoming available for the security.

8. Property and Equipment

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

	2019	2018
Land and improvements	$ 68,844	$ 68,844
Buildings and leasehold improvements	1,773,365	1,694,056
Equipment	1,246,431	1,185,244
	3,088,640	2,948,144
Less: Accumulated depreciation	(1,824,105)	(1,638,721)
Construction-in-progress	2,426,480	1,969,625
Property and equipment, net	$ 3,691,015	$ 3,279,048

Depreciation and amortization expense totaled $190,283 and $176,742 for the years ending August 31, 2019 and 2018, respectively, and is included in the consolidated statements of operations and changes in net assets.

Medical and office equipment acquired under capital leases totaled $8,951 and $9,416 as of August 31, 2019 and 2018, respectively, and building improvements acquired under capital leases totaled $1,970 as of August 31, 2019 and 2018, are included in property and equipment in the consolidated balance sheets. Amortization expense under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets. Accumulated amortization was $9,846 and $9,416 as of August 31, 2019 and 2018, respectively.

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. Capitalized interest expense net of capitalized investment income was $28,861 and $27,718 for the years ended August 31, 2019 and 2018, respectively.

(in thousands of dollars)

8. Property and Equipment (Continued)

ARO are capitalized and recorded in buildings and leasehold improvements.

Changes in ARO for the years ended August 31, are as shown below:

	2019	2018
Beginning of the year	$ 97,239	$ 8,265
Liabilities incurred	-	7,901
Accretion	3,353	1,909
Change in estimates	-	79,164
End of the year	$ 100,592	$ 97,239

9. Debt Obligations

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

	Face Value	Fiscal Years of Maturity	Effective Interest Rates 2019 / 2018	Outstanding Principal 2019	Outstanding Principal 2018
Fixed Rate Obligations					
Tax-Exempt					
2008 Series A-1 Refunding Revenue Bonds	$ 70,360	2020-2021	3.83%/3.79%	$ 900	$ 1,375
2008 Series A-2 Refunding Revenue Bonds	104,100	2020-2022	3.70%/3.65%	1,775	2,475
2008 Series A-3 Refunding Revenue Bonds	84,165	2020-2022	3.69%/3.65%	1,450	2,000
2010 Series A Refunding Revenue Bonds	149,345	2020-2021	3.82%/3.76%	13,195	19,325
2012 Series A Revenue Bonds	340,000	2028-2051	3.98%	340,000	340,000
2012 Series B Refunding Revenue Bonds	68,320	2020-2023	2.42%/2.36%	28,770	35,420
2015 Series A Revenue Bonds	100,000	2052-2054	4.10%	100,000	100,000
2017 Series A Refunding Revenue Bonds	454,200	2022-2041	2.82%/2.81%	454,200	454,200
Taxable					
2018 Series Revenue Bonds	500,000	2049	3.80%	500,000	500,000
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042-2046	1.16%/1.38%	168,200	168,200
2012 Series C Revenue Bonds	60,000	2039-2051	1.60%/1.81%	60,000	60,000
2012 Series D Refunding Revenue Bonds	100,000	2020	1.89%/1.79%	100,000	100,000
2015 Series B Revenue Bonds	75,000	2024	2.04%/1.94%	75,000	75,000
Total principal amounts				1,843,490	1,857,995
Unamortized original issue premiums/discounts, net				103,390	108,890
Unamortized costs of issuance				(11,466)	(12,213)
Current portion of long-term debt				(114,235)	(14,505)
Debt subject to remarketing arrangements				(228,200)	(228,200)
Long-term portion, net of current portion				$ 1,592,979	$ 1,711,967

9. Debt Obligations (Continued)

Debt Issuance Activity

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

Payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a pledge against the revenues of SHC secured under a master trust indenture between SHC and the master trustee. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem some of its bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of $1,843,490 and $1,857,995 as of August 31, 2019 and 2018, respectively.

In December 2017, CHFFA, on behalf of SHC, issued fixed rate refunding revenue bonds (the "2017 Bonds") in the aggregate principal amount of $454,200 plus an original issue premium of $76,138. Proceeds of the 2017 Bonds were used to advance refund a portion of the 2008 Series A bonds and the 2010 Series A and B bonds.

In January 2018, SHC issued taxable fixed rate bonds in the amount of $500,000. The bonds bear interest at a coupon rate of 3.80% and mature on November 15, 2048. Proceeds were issued for general corporate purposes.

In May 2017, SHC entered into a $200,000 revolving credit facility. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable London Interbank Offered Rate ("LIBOR") plus a specified spread. No amounts were outstanding as of August 31, 2019 or August 31, 2018.

Variable Rate Debt

Interest on the 2008 Series B-1 bonds resets weekly and the bonds are remarketed every 7 days at the then prevailing interest rate. The 2012 Series C bonds are in a Windows weekly floating index mode and cannot be tendered for 180 days after a 30 day notice and remarketing period. The 2008 Series B bonds and the 2012 Series C bonds are supported by SHC's self-liquidity and are classified as current liabilities. In the event SHC receives notice of any optional tender of the 2008 Series B-1 bonds or the 2012 Series C bonds, or if any bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, SHC has an obligation to purchase any remaining bonds. SHC maintains sufficient liquidity to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

The 2012 Series D and 2015 Series B bonds are in a monthly floating index mode and are directly placed with U.S. Bank. The 2012 Series D and 2015 Series B bonds are not subject to remarketing or tender until May 13, 2020 and June 28, 2024, respectively. The 2012 Series D bonds are classified as current liabilities while the 2015 Series B bonds are classified as long-term liabilities. SHC presently anticipates the 2012 Series D bonds will be remarketed to new holders in one of the interest rate modes available under the related bond indenture. In the event the 2012 Series D bonds are not remarketed on their mandatory tender date, then, as long as no default or event of default has occurred and is continuing, the 2012 Series D bonds will be repaid.

(in thousands of dollars)

9. Debt Obligations (Continued)

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

	Scheduled Maturities	Debt subject to Remarketing	Debt subject to Mandatory Tender (2012D and 2015B)	Total
2020	$ 14,235	$ 228,200	$ 100,000	$ 342,435
2021	16,045	-	-	16,045
2022	15,505	-	-	15,505
2023	17,065	-	-	17,065
2024	13,475	-	75,000	88,475
Thereafter	1,363,965	-	-	1,363,965
Total	$ 1,440,290	$ 228,200	$ 175,000	$ 1,843,490

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term obligations includes debt subject to remarketing arrangements and payments scheduled to be made in 2020.

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

	Amount Advance Refunded	Amount Outstanding as of August 31,	
	Total	2019	2018
1993 Series	$ 89,520	$ 4,330	$ 6,335
2008 Series A-1	65,610	65,610	65,610
2008 Series A-2	96,625	96,625	96,625
2008 Series A-3	78,090	78,090	78,090
2010 Series A	94,150	94,150	94,150
2010 Series B	146,710	146,710	146,710
Total	$ 570,705	$ 485,515	$ 487,520

Interest Rate Swap Agreements

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

SHC currently has nine outstanding interest rate exchange agreements.

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)
The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2019:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
2008 Series A-1	66,650	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	254,025			
2012 Series A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
2012 Series B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
2012 Series C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	$ 574,925			

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

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

Description	Fair Value 2019	Fair Value 2018	Balance Sheet Location
Fixed Payment Swaps	$ 316,796	$ 182,527	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:

Description	Unrealized (Loss) Gain 2019	Unrealized (Loss) Gain 2018	Statement of Operations Location
Fixed Payment Swaps	$ (134,269)	$ 63,439	Swap interest and change in value of swap agreements

SHC has two swap agreements which require mutual posting of collateral by SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount. There was $31,634 of cash collateral posted by SHC at August 31, 2019 but no collateral was posted at August 31, 2018.

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

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

Bond Interest Expense

Total bond interest expense was $39,060 and $33,473 for the years ended August 31, 2019 and 2018, respectively. Interest capitalized as a cost of construction was $28,861 and $27,718 for the years ended August 31, 2019 and 2018, respectively.

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

10. Retirement Plans

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

Defined Contribution Retirement Plan

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees, excluding LPCH employees (see Note 13), totaling $101,847 and $98,503, UHA employer contributions totaling $4,364 and $4,571 and SHC-VC employer contributions totaling $5,872 and $8,290, for the years ended August 31, 2019 and 2018, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

Defined Benefit Pension Plan

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

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received $128 and $168 in cash for the years ending August 31, 2019 and 2018, respectively, which represented the current year pension expense related to LPCH employees.

During the fiscal year ending August 31, 2018, SHC purchased a group annuity contract for certain SHC Staff Pension Plan retirees. This resulted in a $41,204 payment from plan assets and a permanent reduction in the plan's benefit obligation and triggered a settlement event. The transaction resulted in additional net periodic benefit expense of $12,094 for the year ended August 31, 2018.

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)

Postretirement Medical Benefit Plan (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, 2019 and 2018, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $101,093 and $77,544 as of August 31, 2019 and 2018, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $76,491 and $60,146 as of August 31, 2019 and 2018, 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	
	2019	2018	2019	2018
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 180,930	$ 193,476	$ -	$ -
Actual return on plan assets	23,736	7,477	-	-
Employer contributions	-	34,800	5,033	5,098
Participants contributions	-	-	1,324	860
Plan settlements	-	(41,204)	-	-
Benefits paid	(9,681)	(12,921)	(6,357)	(6,247)
Medicare subsidies received	-	-	-	289
Expenses paid	(1,046)	(698)	-	-
Adjustments	(297)	-	-	-
Fair value of plan assets at end of year	$ 193,642	$ 180,930	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 187,580	$ 245,221	$ 77,544	$ 84,179
Service cost	1,197	1,611	2,235	2,501
Interest cost	7,416	8,485	2,928	2,685
Participants contributions	-	-	1,324	860
Plan settlements	-	(41,204)	-	-
Benefits paid	(9,681)	(12,921)	(6,357)	(6,247)
Medicare subsidies received	-	-	-	289
Expenses paid	(1,046)	(698)	-	-
Plan amendments	-	-	13,767	(671)
Actuarial loss (gain)	25,224	(12,914)	9,652	(6,052)
Benefit obligation at end of year	$ 210,690	$ 187,580	$ 101,093	$ 77,544
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (17,048)	$ (6,650)	$ (101,093)	$ (77,544)
Net benefit liability recognized	$ (17,048)	$ (6,650)	$ (101,093)	$ (77,544)
Amounts recognized in consolidated balance sheets:				
Current liabilities	$ -	$ -	$ (6,965)	$ (7,193)
Noncurrent liabilities	(17,048)	(6,650)	(94,128)	(70,351)
Net benefit liability recognized	$ (17,048)	$ (6,650)	$ (101,093)	$ (77,544)
Amounts recognized in net assets without donor restrictions:				
Prior service cost	$ -	$ -	$ (17,704)	$ (5,363)
Net (loss) gain	(65,223)	(55,059)	4,013	14,589
Net assets without donor restrictions	$ (65,223)	$ (55,059)	$ (13,691)	$ 9,226

(in thousands of dollars)

10. Retirement Plans (Continued)

Postretirement Medical Benefit Plan (continued)
The estimated net loss for the Staff Pension Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $2,277.

The estimated net gain and prior service cost for the Postretirement Medical Benefit Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are $251 and $2,560, respectively.

The accumulated benefit obligation for the Staff Pension Plan was $208,922 and $186,182 as of August 31, 2019 and 2018, respectively.

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

	Staff Pension Plan Obligations 2019	Staff Pension Plan Obligations 2018
Service cost	$ 1,197	$ 1,611
Interest cost	7,416	8,485
Expected return on plan assets	(9,742)	(12,786)
Amortization of net actuarial loss	1,361	2,605
Settlement loss recognized	-	12,094
Total net periodic benefit cost	$ 232	$ 12,009

	Postretirement Medical Benefits 2019	Postretirement Medical Benefits 2018
Service cost	$ 2,235	$ 2,501
Interest cost	2,928	2,685
Amortization of prior service cost	1,426	1,602
Amortization of net actuarial gain	(924)	(580)
Total net periodic benefit cost	$ 5,665	$ 6,208

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	
	2019	2018	2019	2018
Net loss (gain) arising during period	$ 11,525	$ (7,604)	$ 9,652	$ (6,052)
New prior service cost	-	-	13,767	(671)
Amortizations				
Prior service cost	-	-	(1,426)	(1,602)
(Loss) gain	(1,361)	(14,699)	924	580
Total recognized in net assets without donor restrictions	$ 10,164	$ (22,303)	$ 22,917	$ (7,745)
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ 10,396	$ (10,294)	$ 28,582	$ (1,537)

(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	
	2019	2018	2019	2018
Weighted-average assumptions				
Discount rate	2.88%	4.07%	2.77%	3.96%
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	
	2019	2018	2019	2018
Weighted-average assumptions				
Discount rate	4.07%	3.56%	3.96%	3.33%
Expected return on plan assets	5.50%	6.00%	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 evaluation of the historical returns and the future expected returns resulted in the use of 5.5% as the assumption for the expected return on plan assets.

To determine the accumulated postretirement benefit obligation as of August 31, 2019, a 6.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2019, declining gradually to 4.5% by 2038, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated postretirement benefit obligation by $2,131 and the aggregate service and interest cost by $116. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated postretirement benefit obligation by $2,110 and the aggregate service and interest cost by $121.

Plan Assets

SHC's Staff Pension Plan weighted-average asset allocations as of the measurement date August 31, 2019 and 2018, respectively, by asset category are as follows:

Asset Category	2019	2018
Debt securities	60%	60%
Equity securities	40%	40%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Assets (continued)

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

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 483	$ -	$ -	$ 483
Mutual funds	193,159	-	-	193,159
Total assets	$ 193,642	$ -	$ -	$ 193,642

	2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 683	$ -	$ -	$ 683
Mutual funds	180,247	-	-	180,247
Total assets	$ 180,930	$ -	$ -	$ 180,930

Plan Investments

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

The allowable asset mix range and target asset allocations are:

Asset Category	Acceptable Range	Target Allocation
Equity securities	36% to 60%	40%
Debt securities	20% to 80%	60%

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

Financial futures and options on futures traded on exchanges are also permitted for hedging purposes. Prohibited investments include commodities, unregistered securities and short sales. Derivative products may not be used to leverage a portfolio or to speculate. All assets must have readily ascertainable market value and be easily marketable.

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

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Investments (continued)

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

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the above–mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying our exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2019, SHC did not have concentrations of risk in any single entity, manager, counterparty, sector, industry or country.

Expected Contributions

SHC expects to make no contributions to its Staff Pension Plan for both SHC and LPCH employees during the fiscal year ending August 31, 2020. SHC expects to contribute $5,399 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2020.

Expected Benefit Payments

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

	Pension Benefits	Postretirement Medical Benefits: Net of Medicare Part D Subsidy	Postretirement Medical Benefits: Excluding Medicare Part D Subsidy
2020	$ 11,141	$ 6,965	$ 7,248
2021	11,512	7,229	7,363
2022	11,801	7,397	7,527
2023	11,989	7,441	7,565
2024	12,120	7,403	7,521
2025 - 2029	60,958	36,853	37,335

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, 2017	$ 2,893,173	$ 2,871,113	$ 22,060
Excess of revenues over expenses	470,243	471,954	(1,711)
Noncontrolling capital distribution	(1,200)	-	(1,200)
Other changes in net assets without donor restrictions	(58,091)	(57,669)	(422)
Balance as of August 31, 2018	3,304,125	3,285,398	18,727
Excess of revenues over expenses	364,460	357,087	7,373
Other changes in net assets without donor restrictions	(122,710)	(123,521)	811
Balance as of August 31, 2019	$ 3,545,875	$ 3,518,964	$ 26,911

(in thousands of dollars)

12. Net Assets With Donor Restrictions

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

	2019	2018
Subject to expenditure for specified purpose:		
Plant facilities	$ 543,577	$ 498,752
Pledges receivables	62,396	84,535
Other	46,447	51,557
Total subject to expenditure for specified purpose	652,420	634,844
Subject to restriction in perpetuity:		
Accumulated appreciation	14,922	13,982
Endowment	9,431	8,233
Total subject to restriction in perpetuity	24,353	22,215
Total net assets with donor restrictions	$ 676,773	$ 657,059

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 endowment for the years ended August 31, 2019 and 2018 are as follows:

	2019	2018
Endowment net assets, beginning of year	$ 22,215	$ 20,711
Investment return:		
Investment income	599	541
Mark to market adjustments	702	1,256
Total investment return	1,301	1,797
Contributions	1,198	89
Expenditures	(361)	(382)
Endowment net assets, end of year	$ 24,353	$ 22,215

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by California UPMIFA, as of August 31, 2019 and 2018 are as follows:

	2019	2018
Clinical services	$ 5,882	$ 5,855
Education	7,380	6,993
Indigent care and other	11,091	9,367
Total endowment classified as net assets with donor restrictions	$ 24,353	$ 22,215

All of SHC's endowment, totaling $24,353 and $22,215 at August 31, 2019 and 2018, 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.

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 $808,567 and $739,908 for the years ended August 31, 2019 and 2018, 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 $122,615 and $96,559 for the years ended August 31, 2019 and 2018, 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 $2,211 and $2,369 for the years ended August 31, 2019 and 2018, respectively. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements, parking garages and generators and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 14 years total $13,902. Annual service fees range from approximately $1,598 for the year ending August 31, 2020 to $648 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, and security. Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled $48,402 and $45,351 for the years ended August 31, 2019 and 2018, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $5,832 and $6,058 for the years ended August 31, 2019 and 2018, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries.

During the year ended August 31, 2004, SHC paid $5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short-term portion of $108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2019 and 2018. The remaining amount included in other assets in the consolidated balance sheets is $3,487 and $3,594 as of August 31, 2019 and 2018, respectively.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
For the years ended August 31, 2019 and 2018, SHC transferred $120,090 and $98,183, 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 $120,090 and $98,183 for the years ended August 31, 2019 and 2018, respectively, are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

SHC also sent equity transfers of $316 and received equity transfers of $2,177 during the years ended August 31, 2019 and 2018, 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, 2019, and 2018, SHC had an interest rate swap liability to Goldman Sachs of $77,826 and $43,731, respectively, and posted collateral of $5,440 at August 31, 2019 for the same interest rate swap agreement. There was no collateral posted at August 31, 2018. Additionally, SHC made net swap payments to Goldman Sachs of $2,482 and $3,002 for the years ended August 31, 2019 and 2018, respectively.

Transactions with LPCH
SHC and LPCH share certain departments, including facilities design and construction, materials management, Managed Care contracting, compliance and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $38,175 and $33,725 for the years ended August 31, 2019 and 2018, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $38,375 and $43,344 for the years ended August 31, 2019 and 2018, 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 $41,882 and $41,931 for the years ended August 31, 2019 and 2018, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

SHC had not received any reimbursements related to capital projects during the year ended August 31, 2019, but received $2,068 from LPCH for the year ended August 31, 2018.

(in thousands of dollars)

14. Operating and Capital Leases

SHC leases various equipment and facilities under non-cancelable lease agreements expiring at various dates. Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the years ended August 31, 2019 and 2018 was $122,587 and $116,264, respectively.

Net minimum future lease payments under all non-cancelable operating leases and capital lease obligations for periods subsequent to August 31, 2019 are as follows:

Year Ending August 31,	Operating	Capital
2020	$ 79,271	$ 107
2021	73,406	107
2022	70,468	107
2023	64,352	30
2024	40,570	-
Thereafter	73,019	-
Total	$ 401,086	351
Less amount representing interest		(26)
Subtotal		325
Current portion		(93)
Long-term portion, net of current portion		$ 232

SHC leases space in its medical office buildings to others under non-cancelable operating lease arrangements. Future minimum base rentals to be received under these leases in place as of August 31, 2019 are as follows:

Year Ending August 31,	
2020	$ 5,591
2021	5,513
2022	4,934
2023	2,449
2024	1,705
Thereafter	9,594
Total	$ 29,786

15. Commitments and Contingencies

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

SHC has irrevocable standby letters of credit in the amount of $18,964, 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, 2019.

15. Commitments and Contingencies (Continued)

At August 31, 2019, SHC had contractual obligations of approximately $227,662 primarily related to the construction of the new hospital and other capital projects and approximately $544,439 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. SHC anticipated that it would spend approximately $36,000 over the initial term of the agreement. Effective April 1, 2019, SHC extended this contract for an additional five-year term through March 31, 2024, with no limit on renewals. SHC anticipates it will spend approximately $36,000 over the extended term of the agreement.

Effective May 30, 2019, SHC entered into an agreement for the option to purchase land and buildings ("Block E") from the University. Block E consists of approximately six acres of land and office buildings located in Redwood City, California. The total purchase price is $75,000. Under the terms of the agreement, SHC may exercise options up to four years to purchase Block E and the option price will be four equal installments of $2,250 non-refundable deposits with the first being due three days after the effective date of the agreement, and the last on September 1, 2021. If SHC exercises all four years of options, the balance of $66,000 is due and payable by August 31, 2022, unless exercised sooner by SHC. SHC intends to initially develop a 228,000 square foot medical clinic on Block E.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as to regulatory actions unknown or unasserted at this time. Government activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SHC is subject to similar regulatory reviews, and while such reviews may result in repayments and/or civil remedies that could have a material effect on SHC's financial results of operations in a given period, management believes that such repayments and/or civil remedies would not have a material effect on SHC's financial position.

As with many medical centers across the country, information security and privacy is a growing risk area based on developments in the law and expanding mobile technology practices. SHC has policies, procedures, and training in place to safeguard protected information, but select incidents have occurred in the past and may occur in the future involving potential or actual disclosure of such information (including, for example, certain identifiable information relating to patients or research participants). In most cases, there has been no evidence of unauthorized access to, or use/disclosure of, such information, yet laws may require reporting to potentially affected individuals and federal and state governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite SHC for a deficiency or regulatory violation, and/or require payment of fines, corrective action, or both. California law also allows a private right to sue for a breach of medical information. The cost of such possible consequences has not been material to date to SHC, and management does not believe that any future consequences of these incidents will be material to the consolidated financial statements.

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 29%. 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 2020 and 2030.

The California Office of Statewide Health Planning and Development has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards through 2030 and beyond. Certain patient care activities are located in three existing buildings that can be used for inpatient care only until January 1, 2026, at which time, they must be removed from general acute care service. However, these three buildings have utility system configurations that must be modified to support inpatient functions until they are removed from acute care service. Work is in progress now to remedy the utility infrastructure deficiencies by January 1, 2020. The opening of the New Stanford Hospital in 2019 will allow a substantial reduction in the number of inpatient beds occupying non-compliant structures. Work is in progress to construct additional inpatient beds by 2026 to completely relocate all inpatients from non-compliant structures.

SHC also has buildings that do not meet the structural seismic safety standards for 2020 compliance, but none of those buildings have any direct inpatient care. SHC received approval from the State of California via Senate Bill 90 to extend the structural compliance deadline for these buildings through the end of 2019, and subsequently to remove those buildings from the roster of hospital structures by January 1, 2020. SHC believes it will fulfill the requirements for compliance that are due by January 1, 2020.

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of a Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. SHC's share of the estimated cost is approximately $2.2 billion. As of August 31, 2019, SHC has capitalized $2,081 million, exclusive of $180 million in capitalized interest, related to this project. SHC's portion of the Renewal Project construction was completed in Fall 2019.

(in thousands of dollars)

16. Functional Expenses

Expenses are reported in their natural classification in the functional expense categories. All expenses that are not determined to be management and general or fundraising are classified as patient services. Certain cost centers are purely administrative and not directly related to patient care; therefore, the expenses from these cost centers are categorized as management and general. Fundraising expenses include cost centers solely dedicated to fundraising as well as allocation of employees who have involved with fundraising activities. Certain Informational and Technology costs support more than one functional expense category. A percentage of their expenses are allocated to management and general based on the most recent audited annual Office of Statewide Health Planning and Development Report.

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

	2019			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,082,191	$ 219,615	$ 593	$ 2,302,399
Professional services	15,335	25,965	-	41,300
Supplies	713,896	13,240	-	727,136
Purchased services	1,225,237	112,165	13,306	1,350,708
Depreciation and amortization	171,008	19,275	-	190,283
Interest	42,425	6	-	42,431
Other	375,787	107,471	-	483,258
Expense recoveries from related parties	(93,465)	(37,335)	-	(130,800)
Total	$ 4,532,414	$ 460,402	$ 13,899	$ 5,006,715

	2018			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 1,884,218	$ 206,561	$ 481	$ 2,091,260
Professional services	16,822	29,324	-	46,146
Supplies	655,432	11,947	-	667,379
Purchased services	1,088,029	116,539	12,424	1,216,992
Depreciation and amortization	155,181	21,561	-	176,742
Interest	35,417	17	-	35,434
Other	356,164	121,497	-	477,661
Expense recoveries from related parties	(72,003)	(49,724)	-	(121,727)
Total	$ 4,119,260	$ 457,722	$ 12,905	$ 4,589,887

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 3, 2019, the date the consolidated financial statements were issued.

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Report of Independent Auditors on Accompanying Consolidating Information

To the Board of Directors
Stanford Health Care

We have audited the consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries as of August 31, 2019 and for the year then ended and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

December 3, 2019

Stanford Health Care
Consolidating Balance Sheet
August 31, 2019
(in thousands of dollars)

	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total
Assets											
Current assets:											
Cash and cash equivalents	$ 465,141	$ 2	$ 508	$ -	$ 10,587	$ 10,883	$ 3,435	$ -	$ 14,953	$ -	$ 505,509
Assets limited as to use, held by trustee	11	-	-	-	-	-	-	-	-	-	11
Short term investments	399,639	-	-	-	-	-	-	-	-	-	399,639
Patient accounts receivables, net	621,871	28,519	31,087	-	-	3,464	-	-	-	484	685,425
Other receivables	80,097	3,015	770	596	195	2,260	6,549	128	1,536	(1,617)	93,529
Inventories	60,950	958	6,364	1,559	-	-	-	-	-	-	69,831
Prepaid expenses and other	64,292	12,281	6,089	452	311	312	719	14	76	(22)	84,524
Due from related parties	2,737	-	39,729	32,201	1,315	-	-	-	-	(75,982)	-
Total current assets	**1,694,738**	**44,775**	**84,547**	**34,808**	**12,408**	**16,919**	**10,703**	**142**	**16,565**	**(77,137)**	**1,838,468**
Investments	577,355	-	-	-	68,884	-	11,315	-	-	-	657,554
Investments at equity	91,406	-	7,097	-	(540)	-	-	-	-	-	97,963
Investments in University managed pools	1,430,914	-	-	-	47,640	-	-	-	-	-	1,478,554
Property and equipment, net	3,477,352	28,875	176,313	4,601	703	3,106	-	65	-	-	3,691,015
Other assets	124,320	4,834	3,117	-	5,023	54	119	17	327	(59,451)	78,360
Investments in related entities	404,690	4,031	-	-	-	-	-	-	-	(408,721)	-
Total assets	**$ 7,800,775**	**$ 82,515**	**$ 271,074**	**$ 39,409**	**$ 134,118**	**$ 20,079**	**$ 22,137**	**$ 224**	**$ 16,892**	**$ (545,309)**	**$ 7,841,914**
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued liabilities	$ 487,664	$ 30,596	$ 18,614	$ 4,622	$ 2,327	$ 160	$ 1,400	$ 63	$ 11,867	$ (29)	$ 557,284
Accrued salaries and related benefits	231,806	24,900	17,792	(16)	566	-	-	51	-	-	275,099
Due to related parties	173,672	-	878	726	-	267	47	616	1,111	(73,538)	103,779
Third-party payor settlements	29,918	-	-	-	-	-	-	-	-	-	29,918
Current portion of long-term debt	114,235	-	1,610	-	-	-	-	-	-	(1,610)	114,235
Debt subject to remarketing arrangements	228,200	-	-	-	-	-	-	-	-	-	228,200
Self-insurance reserves and other	31,615	2,208	2,583	455	22,563	-	-	-	-	-	59,424
Total current liabilities	**1,297,110**	**57,704**	**41,477**	**5,787**	**25,456**	**427**	**1,447**	**730**	**12,978**	**(75,177)**	**1,367,939**
Self-insurance reserves and other, net of current portion	105,631	-	3,414	61	50,616	-	14,318	-	-	-	174,040
Swap liabilities	316,796	-	-	-	-	-	-	-	-	-	316,796
Other long-term liabilities	141,291	1,748	66,635	-	241	-	-	-	-	(59,451)	150,464
Pension liability	17,048	-	-	-	-	-	-	-	-	-	17,048
Long-term debt, net of current portion	1,592,979	-	-	-	-	-	-	-	-	-	1,592,979
Total liabilities	**3,470,855**	**59,452**	**111,526**	**5,848**	**76,313**	**427**	**15,765**	**730**	**12,978**	**(134,628)**	**3,619,266**
Net assets:											
Net assets without donor restrictions:											
Stanford Health Care	3,653,125	23,063	159,508	33,561	41,096	11,791	4,031	(506)	3,914	(410,619)	3,518,964
Noncontrolling interests	-	-	-	-	16,709	7,861	2,341	-	-	-	26,911
Total net assets without donor restrictions	**3,653,125**	**23,063**	**159,508**	**33,561**	**57,805**	**19,652**	**6,372**	**(506)**	**3,914**	**(410,619)**	**3,545,875**
Net assets with donor restrictions	676,795	-	40	-	-	-	-	-	-	(62)	676,773
Total net assets	**4,329,920**	**23,063**	**159,548**	**33,561**	**57,805**	**19,652**	**6,372**	**(506)**	**3,914**	**(410,681)**	**4,222,648**
Total liabilities and net assets	**$ 7,800,775**	**$ 82,515**	**$ 271,074**	**$ 39,409**	**$ 134,118**	**$ 20,079**	**$ 22,137**	**$ 224**	**$ 16,892**	**$ (545,309)**	**$ 7,841,914**

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2019
(in thousands of dollars)

	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total
Operating revenues and other support:											
Net patient service revenue less price concessions	$ 4,546,819	$ 278,128	$ 296,659	$ -	$ -	$ 12,306	$ -	$ -	$ -	$ (20,860)	$ 5,113,052
Premium revenue	441	76,070	-	-	-	-	-	-	39,503	(9,884)	106,130
Other revenue	117,386	10,360	7,209	67,427	36,482	93	2,233	2,407	-	(85,840)	157,757
Net assets released from restrictions used for operations	12,361	-	702	-	-	-	-	-	-	-	13,063
Total operating revenues and other support	**4,677,007**	**364,558**	**304,570**	**67,427**	**36,482**	**12,399**	**2,233**	**2,407**	**39,503**	**(116,584)**	**5,390,002**
Operating expenses:											
Salaries and benefits	1,983,351	115,298	160,295	32,910	4,391	2,485	-	3,234	360	75	2,302,399
Professional services	31,289	5,047	2,391	4	1,070	1,070	629	29	1,120	(1,349)	41,300
Supplies	640,468	55,168	37,617	15,368	73	67	-	13	4,114	(25,752)	727,136
Purchased services	1,144,770	253,988	48,156	4,038	6,705	903	-	276	44,905	(153,033)	1,350,708
Depreciation and amortization	164,976	7,397	15,726	1,328	235	603	-	18	-	-	190,283
Interest	42,286	15	2,180	3	3	-	-	-	-	(2,056)	42,431
Other	398,968	29,336	33,396	6,337	31,024	1,570	1,946	385	846	(20,550)	483,258
Expense recoveries from related parties	(192,704)	(18,108)	(1,902)	-	-	-	-	(1,282)	-	83,196	(130,800)
Total operating expenses	**4,213,404**	**448,141**	**297,859**	**59,988**	**43,501**	**6,698**	**2,575**	**2,673**	**51,345**	**(119,469)**	**5,006,715**
Income (loss) from operations	**463,603**	**(83,583)**	**6,711**	**7,439**	**(7,019)**	**5,701**	**(342)**	**(266)**	**(11,842)**	**2,885**	**383,287**
Interest and investment income	42,452	81	178	-	1,677	-	309	-	263	(2,056)	42,904
Earnings on equity method investments	8,234	-	81	-	-	-	-	-	-	-	8,315
Increase in value of University Managed pools	74,227	-	-	-	2,521	-	-	-	-	-	76,748
Swap interest and change in value of swap agreements	(146,794)	-	-	-	-	-	-	-	-	-	(146,794)
Excess (deficiency) of revenues over expenses	**441,722**	**(83,502)**	**6,970**	**7,439**	**(2,821)**	**5,701**	**(33)**	**(266)**	**(11,579)**	**829**	**364,460**
Other changes in net assets without donor restrictions:											
Transfer to Stanford University	(120,090)	-	-	-	-	-	-	-	-	-	(120,090)
Transfer between SHC and SHC-VC	(6,376)	-	6,376	-	-	-	-	-	-	-	-
Change in net unrealized gains on investments	20,151	222	-	-	2,333	-	341	-	-	(222)	22,825
Net assets released from restrictions used for:											
Purchase of property and equipment	412	-	565	-	-	-	-	-	-	-	977
Change in pension and postretirement liability	(26,422)	-	-	-	-	-	-	-	-	-	(26,422)
Noncontrolling capital contribution (distribution), net	-	66,953	-	-	-	-	-	-	11,000	(77,953)	-
Increase (decrease) in net assets without donor restrictions	**309,397**	**(16,327)**	**13,911**	**7,439**	**(488)**	**5,701**	**308**	**(266)**	**(579)**	**(77,346)**	**241,750**
Changes in net assets with donor restrictions:											
Transfer to Stanford University	(316)	-	-	-	-	-	-	-	-	-	(316)
Contributions and other	30,221	-	858	-	-	-	-	-	-	-	31,079
Investment income	815	-	-	-	-	-	-	-	-	-	815
Gains on University managed pools	2,176	-	-	-	-	-	-	-	-	-	2,176
Net assets released from restrictions used for:											
Operations	(12,361)	-	(702)	-	-	-	-	-	-	-	(13,063)
Purchase of property and equipment	(412)	-	(565)	-	-	-	-	-	-	-	(977)
Increase (decrease) net assets with donor restrictions	**20,123**	**-**	**(409)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,714**
Increase (decrease) in net assets	329,520	(16,327)	13,502	7,439	(488)	5,701	308	(266)	(579)	(77,346)	261,464
Net assets, beginning of year	4,000,400	39,390	146,046	26,122	58,293	13,951	6,064	(240)	4,493	(333,335)	3,961,184
Net assets, end of year	**$ 4,329,920**	**$ 23,063**	**$ 159,548**	**$ 33,561**	**$ 57,805**	**$ 19,652**	**$ 6,372**	**$ (506)**	**$ 3,914**	**$ (410,681)**	**$ 4,222,648**

The supplemental information has been prepared in a manner consistent with generally accepted accounting principles and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental combining information is presented only for purposes of additional analysis and not as a presentation of the financial position and results of the individual entities.