ANNUAL DISCLOSURE REPORT
OF
STANFORD HEALTH CARE
FOR
THE FISCAL YEAR ENDED AUGUST 31, 2014

DATED JANUARY 26, 2015

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STANFORD HEALTH CARE
FOR
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TABLE OF CONTENTS

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, 2014 (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; and

- 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.

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: January 26, 2015

STANFORD HEALTH CARE

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

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013

The Audited Consolidated Financial Statements of the Corporation and subsidiaries (the "Financial Statements") for the fiscal year ended August 31, 2014 with comparative data for 2013 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 the 2008 Series B Bonds during future periods has been estimated at an assumed rate based upon the interest rate exchange agreements in effect as of August 31, 2014.

Fiscal Year Ending August 31	Debt Service					Total Debt Service
	2008 Series A	2008 Series B[1]	2010 Series A & B	2012 Series A & B	2012 Series C & D[2][3]	
2014	15,848,665	6,100,614	19,752,788	24,870,850	6,333,000	72,905,917
2015	14,213,665	6,100,614	19,717,763	25,349,800	6,333,000	71,714,842
2016	15,645,071	6,109,017	19,743,738	24,862,800	6,341,723	72,702,348
2017	14,662,665	6,092,211	19,712,838	25,335,400	6,324,277	72,127,391
2018	14,600,728	6,100,614	19,707,838	24,845,150	6,333,000	71,587,329
2019	14,687,478	6,100,614	19,698,588	25,319,150	6,333,000	72,138,829
2020	13,739,228	6,109,017	19,689,463	25,311,650	6,341,723	71,191,079
2021	15,314,228	6,092,211	19,684,588	24,822,900	6,324,277	72,238,204
2022	13,880,978	6,100,614	19,673,213	25,295,500	6,333,000	71,283,304
2023	15,140,596	6,100,614	19,664,588	24,801,500	6,333,000	72,040,298
2024	14,498,228	6,109,017	23,568,838	17,000,000	8,229,833	69,405,915
2025	14,467,765	6,092,211	26,957,888	17,000,000	8,226,347	72,744,210
2026	14,360,315	6,100,614	27,027,925	17,000,000	8,229,673	72,718,527
2027	13,741,790	6,100,614	27,543,644	17,000,000	8,230,953	72,617,001
2028	14,976,409	6,109,017	26,258,956	17,230,000	8,236,584	72,810,966
2029	13,584,040	6,092,211	27,579,700	17,318,500	8,233,790	72,808,241
2030	14,741,671	6,100,614	26,380,038	17,352,000	8,235,678	72,810,000
2031	14,298,471	6,100,614	26,752,438	17,423,000	8,235,374	72,809,897
2032	13,652,128	6,109,017	27,329,581	17,479,500	8,243,210	72,813,436
2033	26,394,559	6,092,211	14,562,625	17,527,000	8,238,488	72,814,883
2034	25,440,815	6,100,614	15,313,375	17,720,750	8,241,049	72,816,603
2035	26,028,246	6,100,614	14,508,250	17,938,250	8,241,150	72,816,510
2036	25,152,909	6,109,017	11,043,750	22,267,750	8,247,850	72,821,275
2037	25,226,696	6,092,211	11,018,750	22,553,000	7,930,518	72,821,176
2038	38,901,740	6,100,614	-	20,015,250	7,806,869	72,824,473
2039	38,931,121	6,100,614	-	19,449,250	8,344,256	72,825,241
2040	38,426,928	6,109,017	-	19,862,000	8,431,216	72,829,160
2041	35,978,470	6,092,211	-	21,985,500	8,772,856	72,829,038
2042	-	36,351,487	-	26,907,750	9,574,356	72,833,593
2043	-	36,248,279	-	26,963,000	9,620,999	72,832,278
2044	-	36,597,687	-	26,616,500	9,621,873	72,836,060
2045	-	36,637,350	-	26,546,750	9,655,753	72,839,853
2046	-	36,833,935	-	26,334,250	9,671,419	72,839,604
2047	-	-	-	56,609,750	16,234,275	72,844,025
2048	-	-	-	56,377,750	16,470,754	72,848,504
2049	-	-	-	56,196,250	16,653,088	72,849,338
2050	-	-	-	56,002,750	16,851,212	72,853,962
2051	-	-	-	55,807,500	17,050,286	72,857,786
Total	$ 556,535,600	$ 353,485,931	$ 502,891,156	$ 999,298,700	$ 343,089,707	$ 2,755,301,094

(1) Assumes interest on the 2008 Series B Variable Rate Bonds is payable at the related interest rate swap rate of 3.627% to maturity

(2) Assumes interest on the 2012 Series C Variable Rate Bonds is payable at the related interest rate swap rate of 3.365% until 2036, and 2.63% thereafter to maturity

(3) Assumes interest on the 2012 Series D Variable Rate Bonds is payable at the related interest rate swap rate of 4.314% to maturity

IV. SELECTED FINANCIAL AND OPERATING DATA WITH RESPECT TO THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013

The Selected Financial and Operating Data with Respect to the Fiscal Years Ended August 31, 2014 and 2013 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

	Fiscal Years Ended August 31,	
	2014	**2013**
Discharges		
Acute	24,413	24,744
Behavioral Health	679	829
Total	**25,092**	**25,573**
Patient Days		
Acute	135,244	131,128
Behavioral Health	9,684	9,355
Subtotal	**144,928**	**140,483**
Short Stay OP	10,741	8,577
Total	**155,669**	**149,060**
Average Daily Census		
Acute	370.5	359.3
Behavioral Health	26.5	25.6
Total	**397.1**	**384.9**
Average Length of Stay		
Acute	5.5	5.3
Behavioral Health	14.3	11.3
Total	**5.8**	**5.5**
Case Mix Index	2.20	2.04
Emergency room visits*	62,344	57,606
Short Stay OP procedures	32,441	29,667
Other Outpatient visits**	529,498	450,010
Surgeries		
Inpatient	13,028	12,550
Outpatient	17,723	15,938
Total	**30,751**	**28,488**

Source: Corporation records

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

**** Actual visits will be more, these amounts are billing events which may include multiple visits, exclude outpatient ED visits.**

(ii)
Historical Consolidated Capitalization
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2014	**2013**
Long-Term Debt		
Long-Term Debt	$ 1,067,799	$ 1,082,282
Current Portion	11,700	12,654
Debt subject to short-term remarketing	228,200	228,200
Total Long-Term Debt*	1,307,699	1,323,136
Consolidated Net Assets	2,160,693	1,776,957
Total Consolidated Capitalization	$ 3,468,392	$ 3,100,093
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	37.7%	42.7%

* Includes unamortized original issue premium.

(iii)
Liquidity
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2014	**2013**
Cash and Cash Equivalents	$ 568,625	$ 498,467
Investments	120,866	125,380
Investments in University Managed Pool	1,383,385	1,181,895
Less temporarily and permanently restricted assets	(102,485)	(74,074)
Total Liquid Assets	$ 1,970,391	$ 1,731,668
Days Cash on Hand	274.6	257.7

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

	Fiscal Years Ended August 31,	
	2014	**2013**
Excess of revenues over expenses	$ 431,858	$ 472,109
Depreciation and Amortization Expense	100,625	94,080
Interest Expense	43,636	46,799
Change in Value of University Managed Pools	(176,014)	(103,329)
Interest Rate Swap Mark to Market Adjustment	37,532	(102,928)
Loss on extinguishment of debt	71	-
Funds Available for Debt Service	$ 437,708	$ 406,731
Maximum Annual Debt Service	$72,906	$72,906
Maximum Annual Debt Service Coverage	6.0	5.6

(v)
Sources of Gross Patient Service Revenue

	Fiscal Year Ended August 31,	
	2014	2013
Medicare	34%	34%
Medi-Cal	4	4
Managed Care – Capitation	-	-
Managed Care – Discounted Fee for Services	54	53
Indemnity Insurance, Self-Pay, Other	8	9
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
13033LHJ9	11/15/2015	3.25	$ 675,000
13033LHK6	11/15/2016	3.50	425,000
13033LHL4	11/15/2017	4.00	425,000
13033LHM2	11/15/2018	4.00	475,000
13033LHN0	11/15/2019	4.00	225,000
13033LHP5	11/15/2020	4.00	675,000
13033LHR1	11/15/2021	4.00	300,000
13033LHQ3	11/15/2040	5.15	65,310,000

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

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LMZ7	11/15/2015	5.00	$1,000,000
13033LNA1	11/15/2016	4.00	625,000
13033LNB9	11/15/2017	4.00	625,000
13033LNC7	11/15/2018	4.00	700,000
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
13033LNG8	11/15/2040	5.25	96,625,000

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

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LNM5	11/15/2015	4.00	$ 800,000
13033LNN3	11/15/2016	4.00	525,000
13033LNP8	11/15/2017	4.00	525,000
13033LNQ6	11/15/2018	3.00	550,000
13033LNR4	11/15/2019	4.00	275,000
13033LNS2	11/15/2020	5.00	800,000
13033LNT0	11/15/2021	4.00	375,000
13033LNU7	11/15/2040	5.50	78,090,000

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	0.12	$ 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	0.12	$ 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
13033LHW0	11/15/2015	4.00	$ 5,345,000
13033LHX8	11/15/2016	5.00	5,560,000
13033LHY6	11/15/2017	5.00	5,840,000
13033LHZ3	11/15/2018	5.00	6,130,000
13033LJA6	11/15/2019	5.00	6,435,000
13033LJB4	11/15/2020	5.00	6,760,000
13033LJE8	11/15/2021	5.00	7,095,000
13033LJD0	11/15/2025	5.00	32,105,000
13033LJC2	11/15/2031	5.75	50,000,000
13033LJF5	11/15/2031	5.25	4,950,000

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

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13033LJJ7	11/15/2025	4.50	$ 1,715,000
13033LJK4	11/15/2025	5.00	18,180,000
13033LJL2	11/15/2031	5.75	33,000,000
13033LJG3	11/15/2031	5.25	34,515,000
13033LJH1	11/15/2036	5.00	59,300,000

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
13033LZS0	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
13033LYV3	08/15/2015	5.00	$ 5,640,000
13033LYW1	08/15/2016	3.00	2,000,000
13033LZF7	08/15/2016	4.00	3,435,000
13033LYX9	08/15/2017	5.00	6,105,000
13033LYY7	08/15/2018	3.00	2,000,000
13033LZG5	08/15/2018	5.00	3,920,000
13033LYZ4	08/15/2019	5.00	6,650,000
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	0.07	$ 60,000,000

APPENDIX B

Audited Consolidated Financial Statements
for the Fiscal Years Ended
August 31, 2014 and 2013

Stanford Health Care

(formerly named Stanford Hospital and Clinics)

Consolidated Financial Statements

August 31, 2014 and 2013

Stanford Health Care
Index
August 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors
Stanford Health Care

We have audited the accompanying consolidated financial statements of Stanford Health Care ("SHC"), which comprise the consolidated balance sheets as of August 31, 2014 and August 31, 2013, and the related consolidated statements of operations and changes in net assets and 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.

Auditor's 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 at August 31, 2014 and August 31, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 10, 2014

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111
T: (415) 498 5000, F: (415) 498 7100, www.pwc.com/us

Stanford Health Care
Consolidated Balance Sheets
August 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 467,655	$ 448,831
Short term investments	100,970	49,636
Patient accounts receivable, net of allowance for doubtful accounts of $115,000 and $98,000 at August 31, 2014 and 2013, respectively	431,897	378,916
Other receivables	28,416	45,700
Inventories	25,374	24,286
Prepaid expenses and other	28,283	24,532
Total current assets	1,082,595	971,901
Investments	120,866	125,380
Investments in University managed pools	1,383,385	1,181,895
Assets limited as to use, held by trustee, net of current portion	491,594	531,444
Property and equipment, net	1,405,862	1,143,478
Other assets	263,766	313,477
Total assets	$ 4,748,068	$ 4,267,575
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 173,160	$ 174,111
Accrued salaries and related benefits	161,494	135,841
Due to related parties	62,106	48,628
Third-party payor settlements	22,334	13,515
Current portion of long-term debt	11,700	12,654
Debt subject to short-term remarketing arrangements	228,200	228,200
Self-insurance reserves and other	27,296	24,493
Total current liabilities	686,290	637,442
Self-insurance reserves and other, net of current portion	105,270	102,043
Other long-term liabilities	170,565	148,842
Pension liability	30,827	41,851
Long-term debt, net of current portion	1,067,799	1,082,282
Total liabilities	2,060,751	2,012,460
Net assets:		
Unrestricted:		
Stanford Health Care	2,137,389	1,757,504
Noncontrolling interests	23,304	19,453
Total unrestricted	2,160,693	1,776,957
Temporarily restricted	518,932	470,567
Permanently restricted	7,692	7,591
Total net assets	2,687,317	2,255,115
Total liabilities and net assets	$ 4,748,068	$ 4,267,575

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, 2014 and 2013
(in thousands of dollars)

	2014	2013
Operating revenues:		
Net patient service revenue	$ 2,980,067	$ 2,679,365
Provision for doubtful accounts	(140,678)	(115,762)
Net patient service revenue less provision for doubtful accounts	2,839,389	2,563,603
Premium revenue	60,047	63,429
Other revenue	94,248	82,992
Net assets released from restrictions used for operations	4,639	3,761
Total operating revenues	2,998,323	2,713,785
Operating expenses:		
Salaries and benefits	1,232,251	1,105,761
Professional services	37,046	33,921
Supplies	421,899	374,847
Purchased services	741,565	661,961
Depreciation and amortization	100,625	94,080
Interest	43,636	46,799
Other	226,475	221,611
Expense recoveries from related parties	(83,422)	(77,975)
Total operating expenses	2,720,075	2,461,005
Income from operations	278,248	252,780
Interest and investment income	15,199	13,072
Increase in value of University managed pools	176,014	103,329
Interest rate swaps mark to market adjustments	(37,532)	102,928
Loss on extinguishment of swaps	(71)	-
Excess of revenues over expenses	431,858	472,109
Other changes in unrestricted net assets:		
Transfer to Stanford University, net	(54,337)	(6,978)
Transfer from Lucile Salter Packard Children's Hospital	-	8,000
Change in net unrealized gains on investments	691	(1,116)
Net assets released from restrictions used for:		
Purchase of property and equipment	356	8,594
Change in pension and postretirement liability	6,650	30,119
Noncontrolling capital distribution, net	(1,482)	(289)
Increase in unrestricted net assets	383,736	510,439
Changes in temporarily restricted net assets:		
Transfer from Stanford University	2,480	145
Contributions and other	48,108	51,940
Investment (loss) income	(103)	545
Gains on University managed pools	2,875	2,271
Net assets released from restrictions for:		
Operations	(4,639)	(3,761)
Purchase of property and equipment	(356)	(8,594)
Increase in temporarily restricted net assets	48,365	42,546
Changes in permanently restricted net assets:		
Contributions	101	-
Increase in permanently restricted net assets	101	-
Increase in net assets	432,202	552,985
Net assets, beginning of year	2,255,115	1,702,130
Net assets, end of year	$ 2,687,317	$ 2,255,115

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2014 and 2013
(in thousands of dollars)

	2014	2013
Cash flows from operating activities:		
Increase in net assets	$ 432,202	$ 552,985
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Noncontrolling interests in subsidiaries	(3,851)	(4,241)
Loss on extinguishment of swaps	71	-
Depreciation and amortization	98,634	91,992
Provision for doubtful accounts	140,678	115,762
Change in fair value of interest rate swaps	37,532	(102,928)
Increase in value of University managed pools	(176,014)	(103,329)
Unrealized gains on investments	(1,632)	(106)
Realized gains on investments	(10)	(35)
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	23,156	(46,367)
Changes in operating assets and liabilities:		
Patient accounts receivable	(193,659)	(169,749)
Due to related parties	(6,059)	15,893
Other receivables, inventory, other assets, prepaid expenses and other	9,201	19,478
Accounts payable, accrued liabilities and pension liabilities	(34,222)	(33,349)
Accrued salaries and related benefits	25,653	17,653
Third-party payor settlements	8,819	(11,028)
Self-insurance reserves	6,030	(4,072)
Cash provided by operating activities	366,529	338,559
Cash flows from investing activities:		
Purchases of investments	(148,902)	(144,849)
Sales of investments	102,784	53,012
Purchases of investments in University managed pools	(1,473)	(106,544)
Sales of investments in University managed pools	1,676	636
Decrease (increase) in assets limited as to use and other	39,850	(1,837)
Purchases of property and equipment	(352,747)	(246,473)
Cash used in investing activities	(358,812)	(446,055)
Cash flows from financing activities:		
Payment of long-term debt and capital lease obligations	(12,710)	(10,793)
Contributions received for long lived assets or endowment and net equity transfers to/from related parties	23,817	58,001
Cash provided by financing activities	11,107	47,208
Net increase (decrease) in cash and cash equivalents	18,824	(60,288)
Cash and cash equivalents, beginning of year	448,831	509,119
Cash and cash equivalents, end of year	$ 467,655	$ 448,831
Supplemental disclosures of cash flow information:		
Interest paid	$ 46,227	$ 49,692
Supplemental disclosures of non cash information:		
Donated securities	$ 24,739	$ -
Payables for property and equipment	9,905	19,825
Equity transfers (to) from related parties, net	(19,021)	1,800

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

1. Organization

In October 2014, Stanford Hospital and Clinics was renamed as Stanford Health Care ("SHC") to reflect the range and focus of our organization and our commitment to healing humanity through science and compassion, one patient at a time. 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 14.

The consolidated financial statements include SHC's interest in University HealthCare Alliance ("UHA"), Stanford Emanuel Radiation Oncology Center, LLC ("SEROC"), CareCounsel, LLC ("CareCounsel"), SUMIT Holding International, LLC ("SHI"), Professional Exchange Assurance Company ("PEAC") and University HealthCare Advantage ("HealthCare Advantage").

UHA, a physician practice management organization, supports Stanford University Medical Center'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. Effective January 1, 2011, SHC entered into a sponsorship agreement with UHA; whereby, SHC agreed to certain funding for the development and operation of UHA and continued additional funding for future or alternative clinical sites of UHA. Additional funding by SHC to UHA for operations and capital was $33,715 and $30,666 for the years ending August 31, 2014 and 2013, respectively.

In fiscal year 2012, the bylaws of UHA were amended and restated and the resulting effect afforded control of UHA to SHC; therefore, the activities of UHA have been consolidated in the 2013 and 2014 financial statements of SHC.

SEROC is a joint venture between SHC and Emanuel Medical Center ("EMC"), prior to July 31, 2014. As of that date, EMC transferred its entire membership interest in SEROC 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, 2014 and 2013. The remaining interest of 40% is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets as of August 31, 2014 and 2013.

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 ("SRA"). SHC and LPCH are the owners of SHI.

1. Organization (Continued)

SHC's share of net assets in SUMIT, a captive insurance carrier, was 73.2% and 74.9% for the years ended August 31, 2014 and 2013, respectively. LPCH's share of net assets in SUMIT was 26.8% and 25.1% for the years ended August 31, 2014 and 2013, respectively, and is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets.

SRA was formed on September 19, 2012 and began operations on December 1, 2012. SRA provides risk management services to SHI, the owners of SHI and other affiliated and unaffiliated parties and serves as attorney-in-fact to PEAC. SHC's share of net assets in SRA was 82% for the years ended August 31, 2014 and 2013. The remaining interest of 18% is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets as of August 31, 2014 and 2013.

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 74.7% and 79.6% for the years ended August 31, 2014 and 2013, respectively. The remaining interest of 25.3% and 20.4% for the years ended August 31, 2014 and 2013, respectively, is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets.

HealthCare Advantage, a non-profit public benefit corporation, provides comprehensive healthcare coverage options to elderly and disabled eligible Medicare populations of Santa Clara County through their Medicare Advantage Plan and is solely owned by SHC. This service will be offered to Medicare-eligible residents of Santa Clara County effective January 1, 2015.

2. Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of SHC and its subsidiaries, UHA, SEROC, CareCounsel, SHI, PEAC and HealthCare Advantage which are controlled and owned more than 50% 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:

- ***Unrestricted net assets*** — Unrestricted net assets represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of SHC and the purposes specified in its articles of incorporation or bylaws and, limits resulting from contractual agreements, if any.

- ***Temporarily restricted net assets*** — Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of SHC pursuant to those stipulations or by the passage of time.

- ***Permanently restricted net assets*** — Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that they be maintained permanently by SHC. Generally, the donors of these assets permit SHC to use all or part of the investment return on these assets.

2. Summary of Significant Accounting Policies (Continued)

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

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

Assets Limited as to Use, Held by Trustee
Assets limited as to use include various accounts held 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. There are no amounts required to fund current liabilities of SHC, therefore the entire amount has been classified as long-term in the consolidated balance sheets at August 31, 2014 and 2013.

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

Investments
Investments held directly by SHC consist of cash and cash equivalents and mutual funds and are stated at fair value. Fair value is determined in accordance with current accounting guidance as further described in Note 8. Investment earnings (including realized gains and losses on investments, interest, dividends and impairment loss on investment securities) are included in investment income unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from the appropriate net asset category based on the donor's restriction. Unrestricted unrealized gains and losses on other than trading securities are separately reported below the excess of revenues over expenses.

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

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

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Asset Retirement Obligations
Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently accreted over the useful lives of the related assets. SHC recorded current period accretion expense of $367 and $350 in the consolidated statements of operations and changes in net assets for the years ended August 31, 2014 and 2013, respectively. ARO liability of $7,133 and $7,772 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2014 and 2013, respectively.

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

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

2. Summary of Significant Accounting Policies (Continued)

Other Assets (continued)
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, 2014 and 2013. As SHC has 50% ownership and does not have control, these investments are recorded using the equity method.

Contributions Receivable
Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as either temporarily or permanently restricted net assets. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the promises are received, and recorded in their respective net asset category. In accordance with current accounting guidance, the discount rates were determined using the risk free rate adjusted for the risk of donor default. Amortization of the discount is included in contributions and other in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

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

Interest Rate Swap Agreements
SHC has entered into several interest rate swap agreements, also known as risk management or derivative instruments, to reduce the effect of interest rate fluctuation on its variable rate bonds. 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. The net cash payments or receipts under the interest rate swap agreements have been recorded as an increase (decrease) to interest expense.

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

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

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (continued)
The provision for doubtful accounts is based upon management's assessment of expected net collections considering historical experience and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for doubtful accounts to establish an appropriate allowance for uncollectible accounts.

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

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.

Income Taxes
SHC and UHA are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. 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. SRA is a limited liability company, but has elected to be taxed as a corporation. PEAC is a taxable corporation. SHC has no uncertain tax positions pertaining to unrelated business income.

2. Summary of Significant Accounting Policies (Continued)

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

- ***Professional Liability*** — SHC is self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC also maintains professional liability reserves for claims not covered by SUMIT which totals $4,850. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence. The next $115,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.

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

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

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

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

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

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

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

Reclassification
Certain reclassifications have been made to the 2013 notes to the consolidated financial statements to conform to the 2014 presentation.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements

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

In December 2011, the FASB issued an update to the ASC which expanded the required disclosures about offsetting and related arrangements of an entity's financial assets and liabilities. The disclosures are intended to provide additional information to assist financial statement users in understanding the effect of those arrangements on the entity's financial position. This guidance was effective for annual periods beginning on or after January 1, 2013 and did not impact SHC's financial statement disclosures.

In July 2012, the FASB issued an update to the ASC that allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test on indefinite-lived intangible assets. This guidance was effective for fiscal periods beginning after September 15, 2012 and did not impact SHC's consolidated financial statements.

In October 2012, the FASB issued an update to the ASC to improve consistency in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows. The guidance was effective for periods beginning after June 15, 2013 and did not materially impact SHC's consolidated financial statements.

In May 2014, the FASB issued an update to the ASC to improve the consistency of revenue recognition practices across industries for economically similar transactions. 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. The guidance is effective for periods beginning after December 15, 2016. 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 payers that provide for payments at amounts different from SHC's established rates. A summary of payment arrangements with major third-party payers follows:

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

  Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. SHC is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated amounts due to or from the program are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to net patient service revenue in the year examination is substantially completed. SHC's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 2005. Professional services are reimbursed based on a fee schedule.

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

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

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

  - Managed care contracts such as those with HMOs and PPOs, which reimburse SHC at contracted or per diem rates, which are usually less than full charges.

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

- ***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 payers.

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

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

	2014	2013
Medicare	$ 564,361	$ 514,500
Medi-Cal	48,453	74,251
Managed Care - Discounted Fee for Services	2,077,301	1,832,118
Self pay and other	246,277	216,180
Related party	43,675	42,316
Patient service revenue, net of contractual allowances	$ 2,980,067	$ 2,679,365
Provision for doubtful accounts	(140,678)	(115,762)
Net patient service revenue	$ 2,839,389	$ 2,563,603

SHC recognized net patient service revenue adjustments of $1,341 and $1,399 as a result of prior years favorable and unfavorable developments related to reimbursement for the years ended August 31, 2014 and 2013, respectively. SHC also recognized revenues of $21 and $10,049 as a result of prior years appeals settled during the years ended August 31, 2014 and 2013, respectively.

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

	2014	2013
Blue Cross	18%	21%
Medicare	13%	14%
Blue Shield	14%	13%

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

California Hospital Quality Assurance Fee Program

The State of California enacted legislation in 2009 which established a Hospital Quality Assurance Fee ("QAF") Program and a Hospital Fee Program. These programs imposed a provider fee on certain California general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. The effective period of this Hospital Fee Program was April 1, 2009 through December 31, 2010. The State received final approval from the Centers for Medicare & Medicaid Services ("CMS") in December of 2010 on the rates. Subsequent legislation extended the QAF and Hospital Fee programs from January 1, 2011 through June 30, 2011, which was approved by CMS in December 2011. Additional legislation extended the QAF and Hospital Fee programs from July 1, 2011 through December 31, 2013. In June 2012, CMS approved the fee-for-service Medi-Cal supplement payments portion of this thirty month extension. In June 2013, CMS approved twenty four months of the managed care supplemental payments portion of this thirty month extension.

SHC recognized $9,543 and $50,090 in net patient service revenue under these programs and $7,581 and $28,730 in other expense for QAF to the California Department of Health Care Services for the years ended August 31, 2014 and 2013, respectively.

(in thousands of dollars)

4. Charity Care and Uncompensated Costs

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

	2014	2013
Charity care at established rates	$ 63,789	$ 81,077
Estimated cost of charity care, net	$ 14,792	$ 19,595

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 $684 and $652 during the years ended August 31, 2014 and 2013, 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 is as follows:

	2014	2013
Charity care	$ 14,792	$ 19,595
Medi-Cal	148,896	116,504
Medicare	327,355	272,638
Total	$ 491,043	$ 408,737

5. The American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 ("ARRA") increased domestic spending on education, infrastructure and health care, including up to $31 billion in new spending on health information technology, most of which is for incentive payments to physicians and hospitals through the Medicare and Medicaid ("Medi-Cal") programs. On July 13, 2010, CMS issued two final rules related to the adoption and dissemination of electronic health records ("EHRs"). One of the rules defines the "meaningful use" requirements that hospitals and other providers must meet to qualify for federal incentive payments for adopting certified EHRs under ARRA, and the other final rule describes the technical capabilities required for certified EHR technology.

The Medi-Cal Electronic Health Record Incentive Program provides incentive payments to eligible hospitals, physicians and certain other professionals ("Providers") as they adopt, implement, or upgrade certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. Medi-Cal EHR incentive payments to Providers are paid through the California Department of Health Care Services ("DHCS"), but are 100% federally funded.

(in thousands of dollars)

5. The American Recovery and Reinvestment Act of 2009 (Continued)

The Medicare incentive payments to individual hospitals are made over a four-year, front-weighted period. Hospitals that fail to become meaningful users of EHRs (and fail to submit quality data) by 2015 will be subject to penalties in the form of a reduction in Medicare payments. The Medi-Cal incentives are also received in four front-weighted annual payments, but are subject to more flexible payment and compliance standards than Medicare incentive payments. There are no Medi-Cal payment adjustments related to the failure to comply with meaningful use requirements. SHC recognized $5,458 and $7,665 of EHR incentives in other revenue for the years ended August 31, 2014 and 2013, respectively, related to the Medi-Cal EHR incentive program.

6. Contributions Receivable

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 financial statements in the appropriate net asset category. Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using a discount rate of 2.01% for new receivables recorded in 2014 and ranging from 1.20% to 3.62% for receivables recorded in 2013.

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

	2014	2013
In one year or less	$ 16,220	$ 19,744
Between one year and five years	224,669	217,922
More than five years	25,348	88,160
	266,237	325,826
Less: discount/allowance	(26,338)	(32,366)
Total contributions receivable, net	239,899	293,460
Less: current portion	(15,183)	(18,834)
Contributions receivable, net of current portion	$ 224,716	$ 274,626

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

	2014	2013
Plant replacement and expansion	$ 262,156	$ 320,442
Indigent care and other	4,081	5,384
Total	$ 266,237	$ 325,826

There were no conditional pledges at August 31, 2014 and 2013.

(in thousands of dollars)

7. Investments and Investments in University Managed Pools

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

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Short Term Investments:				
Mutual funds	$ 100,840	$ 100,970	$ 50,141	$ 49,636
Investments:				
Cash and cash equivalents	$ 56,826	$ 56,826	$ 78,607	$ 78,607
Mutual funds	57,167	58,214	45,783	46,773
Other	5,826	5,826	-	-
Total	$ 119,819	$ 120,866	$ 124,390	$ 125,380

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

	Fair Value	
	2014	2013
Investments in University managed pools:		
Merged Pool	$1,354,539	$1,177,287
Securities	23,891	-
Expendable Funds Pool	4,955	4,608
Total	$1,383,385	$1,181,895

The Merged Pool ("MP") is the primary investment pool in which funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value. The MP's investments at August 31, 2014 and 2013 consist of approximately 7% and 5% cash and cash equivalents, 5% and 5% fixed income, 26% and 23% public equity securities, 9% and 10% real estate, 8% and 8% natural resources, 21% and 25% absolute returns, and 24% and 24% private equity securities, respectively.

The securities were donated in August 2014 and recorded at fair market value as of August 31, 2014. The University plans to sell the securities and invest the funds in the MP during fiscal year 2015.

8. Fair Value Measurements

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

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

8. Fair Value Measurements (Continued)

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

These levels are:

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

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

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates.

(in thousands of dollars)

8. Fair Value Measurements (Continued)

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

	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 467,655	$ -	$ -	$ 467,655
Short term investments	-	100,970	-	100,970
Assets limited as to use, held by trustee	491,594	-	-	491,594
Investments	56,826	58,214	5,826	120,866
Investments in University managed pools	23,891	1,359,494	-	1,383,385
Total assets	$1,039,966	$1,518,678	$ 5,826	$2,564,470
Liabilities				
Interest rate swap instruments	$ -	$ 155,984	$ -	$ 155,984

	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 448,831	$ -	$ -	$ 448,831
Short term investments	-	49,636	-	49,636
Assets limited as to use, held by trustee	531,444	-	-	531,444
Investments	78,607	46,773	-	125,380
Investments in University managed pools	-	1,181,895	-	1,181,895
Total assets	$1,058,882	$1,278,304	$ -	$2,337,186
Liabilities				
Interest rate swap instruments	$ -	$ 133,255	$ -	$ 133,255

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

	2014
Balance, beginning of year	$ -
Purchases	5,826
Balance, end of year	$ 5,826

(in thousands of dollars)

9. Property and Equipment

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

	2014	2013
Land and improvements	$ 28,177	$ 28,196
Buildings and improvements	1,020,692	926,512
Equipment	766,221	718,682
	1,815,090	1,673,390
Less: Accumulated depreciation	(1,082,021)	(984,931)
Construction-in-progress	672,793	455,019
Property and equipment, net	$ 1,405,862	$ 1,143,478

Depreciation and amortization expense totaled $100,625 and $94,080 for the years ending August 31, 2014 and 2013, respectively, and is included in the consolidated statements of operations and changes in net assets.

As of August 31, 2014, medical equipment acquired under capital leases totaled $6,472 and is 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 $6,472 and $6,413 as of August 31, 2014 and 2013, 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 $19,084 and $18,758 for the years ended August 31, 2014 and 2013, respectively.

(in thousands of dollars)

10. Long-Term Debt

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

	Year of Maturity	Interest Rates 2014/2013	Outstanding Principal 2014	Outstanding Principal 2013
Fixed Rate Obligations				
2008 Series A1 Refunding Revenue Bonds	2040	2.25% to 5.15%	$ 68,785	$ 69,485
2008 Series A2 Refunding Revenue Bonds	2040	1.00% to 5.25%	101,750	102,775
2008 Series A3 Refunding Revenue Bonds	2040	1.00% to 5.50%	82,240	83,065
2010 Series A Refunding Revenue Bonds	2031	4.00% to 5.75%	135,305	140,200
2010 Series B Refunding Revenue Bonds	2036	4.50% to 5.75%	146,710	146,710
2012 Series A Revenue Bonds	2051	5.00%	340,000	340,000
2012 Series B Refunding Revenue Bonds	2023	2.00% to 5.00%	58,520	63,555
Promissory note	2014	7.03%	-	174
Variable Rate Obligations				
2008 Series B Refunding Revenue Bonds	2045	0.08%/0.11%	168,200	168,200
2012 Series C Revenue Bonds	2051	0.13%/0.14%	60,000	60,000
2012 Series D Revenue Bonds	2051	0.71%/0.74%	100,000	100,000
Total principal amounts			1,261,510	1,274,164
Unamortized original issue premiums/discounts, net			46,189	48,972
Current portion of long-term debt			(11,700)	(12,654)
Debt subject to short-term remarketing arrangements			(228,200)	(228,200)
Long-term portion, net of current portion			$ 1,067,799	$ 1,082,282

10. Long-Term Debt (Continued)

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

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

In June 2010, CHFFA, on behalf of SHC, issued fixed rate revenue bonds in the aggregate principal amount of $296,055 (the "2010 Bonds"). The 2010 Bonds were comprised of $149,345 of 2010 Series A bonds, proceeds of which were used to refund the 1998B bonds, and $146,710 of 2010 Series B bonds, proceeds of which were used to refund the 2003 Series B, C and D bonds.

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

In May 2012, CHFFA, on behalf of SHC, issued four series of revenue bonds in the aggregate principal amount of $568,320 (the "2012 Bonds"). The 2012 Bonds were comprised of $340,000 of 2012 Series A bonds, $68,320 of Series B bonds, $60,000 of Series C bonds and $100,000 of Series D bonds. Proceeds of the 2012 Series A, C and D bonds will be used to finance a portion of the new Stanford Hospital. Proceeds of the 2012 Series B bonds were used to advance refund the 2003 Series A bonds.

The 2008 Series B-1 bonds are in a weekly interest rate mode and are remarketed every 7 days at the then prevailing interest rate. Bondholders in a weekly interest rate mode have the option of tendering their bonds on a weekly basis. 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. The 2012 Series D bonds are also in a floating index mode with monthly interest rate resets and were directly placed with U.S. Bank. The 2012 Series D bonds are not subject to remarketing or tender until May 23, 2019 and are classified as long-term liabilities.

(in thousands of dollars)

10. Long-Term Debt (Continued)

The 2012 Bonds, together with the 2010 Bonds and 2008 Bonds are collectively referred to as the "Revenue Bonds". The Revenue Bonds are limited obligations of CHFFA and are payable solely from payments made by SHC. Payments of principal and interest on the Revenue Bonds are collateralized by a pledge against the revenues of SHC secured under a master trust indenture between SHC and the master trustee. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem the Revenue Bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of $1,261,510 and $1,273,990 as of August 31, 2014 and 2013, respectively.

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

	Scheduled Maturities	Bonds Supported by SHC Liquidity	Total
2015	$ 11,700	$ 228,200	$ 239,900
2016	13,255	-	13,255
2017	13,240	-	13,240
2018	13,335	-	13,335
2019	14,505	-	14,505
Thereafter	967,275	-	967,275
	$ 1,033,310	$ 228,200	$ 1,261,510

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term obligations, including debt subject to short term remarketing arrangements, includes payments scheduled to be made in 2015 and the VRDB's supported by SHC's liquidity. The VRDB's supported by self-liquidity provide the bondholder with an option to tender the bonds to SHC. Generally accepted accounting principles require that bonds supported by SHC's liquidity be classified as current liabilities.

The estimated fair value of the Revenue Bonds as of August 31, 2014 and 2013 was $1,371,231 and $1,285,951, respectively, and is considered level 2 based on the inputs used to value the Revenue Bonds as defined in Note 8.

In 1998, SHC advance refunded its 1993 bonds in the amount of $89,520 by issuing the 1998 Series B bonds. In 2012, SHC advance refunded its 2003 Series A bonds in the amount of $74,110 by issuing the 2012 Series B bonds. As of August 31, 2014 and 2013, $27,295 and $96,200, respectively, of advance refunded bonds, which are considered extinguished, remain outstanding.

Interest Rate Swap Agreements

SHC has entered into various interest rate swap agreements ("swap agreements") with varying maturities through November 2051. SHC uses swap agreements, also known as risk management or derivative instruments, principally to manage interest rate risk and has entered into derivatives to lock in fixed rates for anticipated issuance and refunding of debt. By using swap agreements to manage the risk of changes in interest rates, SHC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the swap agreements. When the fair value of a swap agreement is positive, the counterparty owes SHC, which creates credit risk. When the fair value of a swap agreement is negative, SHC owes the counterparty and, therefore, it does not possess credit risk.

(in thousands of dollars)

10. Long-Term Debt (Continued)

Interest Rate Swap Agreements (continued)

SHC minimizes its credit risk by entering into swap agreements with at least two counterparties and requiring the counterparty to post collateral for the benefit of SHC based on the credit rating of the counterparty and the fair value of the swap agreement. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

SHC maintains interest rate swap programs on certain of its variable rate revenue bonds. These bonds expose SHC to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, SHC entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. Certain of these agreements involve the exchange of fixed rate payments for variable rate payments based on a percentage of the One Month London Interbank Offered Rate ("LIBOR"). In November 2012, SHC amended the terms of the 2008 Series A-2 and A-3 swap agreements to suspend cash flows until November 15, 2016. In conjunction with this amendment, SHC moved one of the swap agreements to a new counterparty. In February 2014, SHC terminated the 2008 B-1 and B-2 swap agreements. As a result of the termination, a loss of $71 was included in loss on extinguishment of swaps for the year ended August 31, 2014.

The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2014:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
Series 2003B	$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
Series 2003C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
Series 2003D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
Series 2008A1	68,925	11/01/2040	3.693%	70% 1-month LIBOR
Series 2008A2	102,775	11/15/2051	3.999%	67% 1-month LIBOR
Series 2008A3	84,600	11/15/2051	3.902%	67% 1-month LIBOR
Subtotal LIBOR Swaps	256,300			
Series 2012A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
Series 2012B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
Series 2012C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	$ 577,200			

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.

(in thousands of dollars)

10. Long-Term Debt (Continued)

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

	Fair Value		
Description	**2014**	**2013**	**Balance Sheet Location**
Fixed Payment Swaps	$ 155,984	$ 133,255	Other long-term liabilities

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

	Unrealized (Losses) Gains		
Description	**2014**	**2013**	**Statement of Operations Location**
Fixed Payment Swaps	$ (37,532)	$102,928	Interest rate swap mark to market adjustments

Certain swap agreements require posting of collateral by SHC or the counterparties should the fair market value of the swap agreements exceed a predetermined threshold dollar amount. The collateral thresholds reflect the current credit ratings issued by major credit rating agencies on SHC's and the counterparty's debt. Declines in SHC's or the counterparties' credit ratings would result in decreases in the collateral thresholds and consequently, the potential for additional collateral postings by SHC or the counterparty. In lieu of posting cash as collateral under its swap agreements, SHC posted a stand-by letter of credit with one of its counterparties. In November 2012, SHC moved one of its swap agreements to a new counterparty. As a result, the stand-by letter of credit was terminated and no additional collateral has been required.

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

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

	2014	**2013**
Interest and fees	$ 26,186	$ 26,564
Swap settlements	16,982	19,674
Bond interest expense	$ 43,168	$ 46,238
Interest capitalized as a cost of construction	$ 19,084	$ 18,758

11. 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 14) totaling $55,066 and $48,803 for the years ended August 31, 2014 and 2013, respectively, and UHA employer contributions totaling $1,958 and $573 for the years ended August 31, 2014 and 2013, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

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

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received $434 and $594 in cash for the years ending August 31, 2014 and 2013, respectively, which represented the current year pension expense related to LPCH employees.

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

For purposes of the August 31, 2014 benefit plan liability valuations, SHC has assumed future mortality according to the RP 2000 Generational mortality table. The release of a new pensioner mortality study performed by the Society of Actuaries is expected later this calendar year, and upon that release, SHC will evaluate the impact of the resulting updated mortality table for the August 31, 2015 benefit plan liability valuations.

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, 2014 and 2013, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $84,616 and $82,846 as of August 31, 2014 and 2013, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $66,959 and $66,822 as of August 31, 2014 and 2013, respectively, which represents the liability for SHC employees excluding LPCH employees.

(in thousands of dollars)

11. Retirement Plans (Continued)

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2014	2013	2014	2013
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 182,510	$ 185,111	$ -	$ -
Actual return on plan assets	36,886	3,880	-	-
Employer contributions	5,820	3,946	4,703	5,163
Participants contributions	-	-	1,237	1,859
Benefits paid	(10,175)	(9,659)	(5,940)	(7,022)
Expenses paid	(466)	(768)	-	-
Fair value of plan assets at end of year	$ 214,575	$ 182,510	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 224,361	$ 249,907	$ 82,846	$ 87,150
Service cost	2,324	2,708	1,839	2,075
Interest cost	10,036	8,856	3,507	2,911
Participants contributions	-	-	1,237	1,859
Benefits paid	(10,175)	(9,659)	(5,940)	(7,022)
Expenses paid	(466)	(768)	-	-
Plan amendments	-	-	-	1,624
Actuarial loss (gain)	19,322	(26,683)	1,127	(5,751)
Benefit obligation at end of year	$ 245,402	$ 224,361	$ 84,616	$ 82,846
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (30,827)	$ (41,851)	$ (84,616)	$ (82,846)
Net benefit liability recognized	$ (30,827)	$ (41,851)	$ (84,616)	$ (82,846)
Amounts recognized in consolidated balance sheets:				
Current liabilities	$ -	$ -	$ (5,149)	$ (5,209)
Noncurrent liabilities	(30,827)	(41,851)	(79,467)	(77,637)
Net benefit liability recognized	$ (30,827)	$ (41,851)	$ (84,616)	$ (82,846)
Amounts recognized in unrestricted net assets:				
Prior service cost	$ -	$ -	$ (3,401)	$ (4,216)
Net (loss) gain	(65,146)	(71,722)	5,054	6,644
Unrestricted net assets	$ (65,146)	$ (71,722)	$ 1,653	$ 2,428

(in thousands of dollars)

11. Retirement Plans (Continued)

The estimated net loss for the staff pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $2,556.

The estimated net gain and prior service cost for the postretirement medical plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $338 and $815, respectively.

Total benefit obligation at the end of the year for Postretirement Medical Benefits excluding Medicare Part D subsidy increased to $87,951.

The accumulated benefit obligation for the defined benefit pension plan was $242,963 and $221,678 as of August 31, 2014 and 2013, respectively.

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

	Staff Pension Plan Obligations	
	2014	2013
Service cost	$ 2,324	$ 2,708
Interest cost	10,036	8,856
Expected return on plan assets	(13,163)	(13,658)
Amortization of net actuarial loss	2,175	10,345
Total net periodic benefit cost	$ 1,372	$ 8,251

	Postretirement Medical Benefits			
	Net of Medicare Part D Subsidy		Excluding Medicare Part D Subsidy	
	2014	2013	2014	2013
Service cost	$ 1,839	$ 2,075	$ 1,841	$ 2,075
Interest cost	3,507	2,911	3,636	3,074
Amortization of prior service cost	815	312	815	312
Amortization of net actuarial gain	(463)	(71)	(727)	(239)
Total net periodic benefit cost	$ 5,698	$ 5,227	$ 5,565	$ 5,222

(in thousands of dollars)

11. Retirement Plans (Continued)

Changes recognized in unrestricted net assets for the years ended August 31 include the following components:

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2014	2013	2014	2013
Net (gain) loss arising during period	$ (4,401)	$ (16,905)	$ 1,127	$ (5,751)
New prior service cost	-	-	-	1,624
Amortizations				
Prior service cost	-	-	(815)	(312)
(Loss) gain	(2,175)	(10,345)	463	71
Total recognized in unrestricted net assets	$ (6,576)	$ (27,250)	$ 775	$ (4,368)
Total recognized in net periodic benefit cost and unrestricted net assets	$ (5,204)	$ (18,999)	$ 6,473	$ 859

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	
	2014	2013	2014	2013
Weighted-average assumptions				
Discount rate	3.84%	4.59%	3.65%	4.37%
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	
	2014	2013	2014	2013
Weighted-average assumptions				
Discount rate	4.59%	3.62%	4.37%	3.43%
Expected return on plan assets	7.50%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	5.50%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. 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 7.5% as the assumption for the expected return on plan assets.

To determine the accumulated post-retirement benefit obligation as of August 31, 2014, a 7.25% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2014, declining gradually to 4.75% by 2024, and remaining at this rate thereafter.

(in thousands of dollars)

11. Retirement Plans (Continued)

Actuarial Assumptions (continued)
Assumed healthcare cost trend rates have a significant effect on the amounts reported for the post-retirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post-retirement benefit obligation by $2,406 and the aggregate service and interest cost by $156. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by $2,268 and the aggregate service and interest cost by $144.

Plan Assets
SHC's staff pension plan weighted-average asset allocations as of the measurement date August 31, 2014 and 2013, respectively, by asset category are as follows:

Asset Category	August 31, 2014	August 31, 2013
Equity securities	50%	53%
Debt securities	50%	47%
Total	100%	100%

The following table summarizes SHC's staff pension plan assets measured at fair value on a recurring basis as of August 31, based on the inputs used to value them as defined in Note 8:

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 938	$ -	$ -	$ 938
Mutual funds	213,637	-	-	213,637
Total assets	$ 214,575	$ -	$ -	$ 214,575

	2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,090	$ -	$ -	$ 1,090
Mutual funds	181,420	-	-	181,420
Total assets	$ 182,510	$ -	$ -	$ 182,510

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.

(in thousands of dollars)

11. Retirement Plans (Continued)

Plan Investments (continued)
The allowable asset mix range and target asset allocations are:

Asset Category	Acceptable Range	Target Allocation
Equity securities	36% to 60%	50%
Debt securities	20% to 80%	50%

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

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

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

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

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, 2014, 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, 2015. SHC expects to contribute $4,353 to its Postretirement Medical Plan for only SHC employees during the fiscal year ending August 31, 2015.

(in thousands of dollars)

11. Retirement Plans (Continued)

Expected Benefit Payments

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

		Postretirement Medical Benefits	
	Pension Benefits	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2015	$ 12,586	$ 5,150	$ 5,464
2016	13,146	5,375	5,685
2017	13,642	5,614	5,918
2018	14,093	5,861	6,158
2019	14,488	6,131	6,418
2020 - 2024	75,991	33,324	34,573

12. Unrestricted Net Assets

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

	Total	Controlling Interest	Noncontrolling Interests
Balance September 1, 2012	$ 1,266,518	$ 1,251,306	$ 15,212
Excess of revenues over expenses	472,109	467,475	4,634
Noncontrolling capital distribution, net	(289)	-	(289)
Other changes in unrestricted net assets	38,619	38,723	(104)
Balance August 31, 2013	1,776,957	1,757,504	19,453
Excess of revenues over expenses	431,858	426,527	5,331
Noncontrolling capital distribution, net	(1,482)	-	(1,482)
Other changes in unrestricted net assets	(46,640)	(46,642)	2
Balance August 31, 2014	$ 2,160,693	$ 2,137,389	$ 23,304

13. Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

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

	2014	2013
Plant replacement and expansion	$ 454,334	$ 424,760
Other patient services	39,587	31,004
Clinical services	14,767	4,885
Indigent care	6,366	6,225
Education	3,878	3,693
Total	$ 518,932	$ 470,567

(in thousands of dollars)

13. Temporarily and Permanently Restricted Net Assets (Continued)

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

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

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

Endowment funds by net asset classification as of August 31, 2014 and 2013 are as follows:

	2014			2013		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	$ 10,293	$ 7,692	$ 17,985	$ 8,542	$ 7,591	$ 16,133
Total endowment	$ 10,293	$ 7,692	$ 17,985	$ 8,542	$ 7,591	$ 16,133

Changes in SHC's endowment for the years ended August 31, 2014 and 2013 are as follows:

	2014			2013		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 8,542	$ 7,591	$ 16,133	$ 7,231	$ 7,591	$ 14,822
Investment return:						
Investment income	467	-	467	452	-	452
Mark to market adjustments	1,896	-	1,896	1,125	-	1,125
Total investment return	2,363	-	2,363	1,577	-	1,577
Contributions	-	101	101	-	-	-
Expenditures	(612)	-	(612)	(266)	-	(266)
Endowment net assets, end of year	$ 10,293	$ 7,692	$ 17,985	$ 8,542	$ 7,591	$ 16,133

(in thousands of dollars)

13. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently Restricted Net Assets (continued)
The following provides descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only). The portion of endowment funds that is required to be retained permanently or temporarily, either by explicit donor stipulation or by California UPMIFA, as of August 31, 2014 and 2013 is as follows:

	2014			2013		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Clinical services	$ 1,125	$ 4,000	$ 5,125	$ 946	$ 4,000	$ 4,946
Education	3,831	1,235	5,066	3,250	1,235	4,485
Indigent care and other	5,337	2,457	7,794	4,346	2,356	6,702
Total endowment classified as net assets	$ 10,293	$ 7,692	$ 17,985	$ 8,542	$ 7,591	$ 16,133

All of SHC's endowment, totaling $17,985 and $16,133 at August 31, 2014 and 2013, respectively, are invested in the MP. The funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

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

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

14. 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 $406,982 and $356,361 for the years ended August 31, 2014 and 2013, respectively.

14. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
Services provided by the University and other SoM non-physician services include telecommunications, transportation, utilities, blood products, and certain administrative services, which consist of legal and internal audit. Total costs incurred by SHC were $114,366 and $104,267 for the years ended August 31, 2014 and 2013, 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 $3,050 for the years ended August 31, 2014 and 2013, 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 19 years total $25,849. Annual service fees range from approximately $2,389 for the year ending August 31, 2015 to $657 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 $30,161 and $29,019 for the years ended August 31, 2014 and 2013, 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 $4,682 and $4,986 for the years ended August 31, 2014 and 2013, 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, 2014 and 2013. The remaining amount included in other assets in the consolidated balance sheets is $4,026 and $4,134 as of August 31, 2014 and 2013, respectively.

For the years ended August 31, 2014 and 2013, SHC transferred $54,337 and $31,978, 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. For the year ended August 31, 2013, SHC received an equity transfer of $25,000 from the University which represented a gift originally donated to the University and subsequently re-designated for SHC patient care services. Net transfers of $54,337 and $6,978 for the years ended August 31, 2014 and 2013, respectively, are included in other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets.

SHC also received equity transfers of $2,480 and $145 during the years ended August 31, 2014 and 2013, respectively, which represented restricted gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC patient care services and are included in changes in temporarily restricted net assets in the consolidated statements of operations and changes in net assets.

(in thousands of dollars)

14. Related-Party Transactions (Continued)

Transactions with LPCH

Shared Services - SHC and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, payroll (through December 31, 2012), compliance, risk management (through November 30, 2012) 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 $25,449 and $21,028 for the years ended August 31, 2014 and 2013, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Purchased Services - SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $43,675 and $42,316 for the years ended August 31, 2014 and 2013, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other Services - Other services provided by SHC include services provided by interns and residents, building maintenance, IT and utilities. Reimbursement of these services totaled $25,022 and $25,310 for the years ended August 31, 2014 and 2013, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

Equity Transfers - SHC received equity transfers of $8,000 during the year ended August 31, 2013, which represented reimbursement for capital projects.

15. Operating 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, 2014 and 2013 was $56,045 and $53,183, respectively.

Net minimum future lease payments under all non-cancelable operating leases for periods subsequent to August 31, 2014 are as follows:

Year Ending August 31,	
2015	$ 45,647
2016	42,379
2017	42,422
2018	38,504
2019	35,587
Thereafter	100,947
	$ 305,486

(in thousands of dollars)

15. Operating Leases (Continued)

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, 2014 are as follows:

Year Ending August 31,	
2015	$ 1,809
2016	1,151
2017	1,165
2018	1,005
2019	636
Thereafter	2,258
	$ 8,024

16. 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 $16,756, which are required as security for the workers' compensation self-insurance arrangements and $10,093 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, 2014.

At August 31, 2014, SHC had contractual obligations of approximately $822,092 primarily related to the construction of the new hospital and other capital projects to support SHC's operations.

Effective September 1, 2010, SHC entered into an eight year agreement with a global management consulting, technology services and outsourcing company, pursuant to which SHC will receive certain information technology services. Under the terms of the agreement, SHC will be charged a fixed annual service charge including expenses, payable monthly, for services as defined, and additional fees plus expenses for special projects. Effective September 1, 2012, this agreement was amended to end on September 1, 2015. SHC has the right to extend the term of the agreement for a further period of up to twelve months. SHC may exercise such right no more than two times. The annual fixed service charges are subject to adjustment under certain conditions, but unless so adjusted, amount to approximately $24,662 for the year ending August 31, 2015. SHC has certain rights to reduce the scope of services to be purchased and to terminate the agreement early for a termination fee. The amount of the termination fee depends on when the right to terminate is exercised and changes monthly from $2,652 for the month ending September 30, 2014 and decreasing gradually to $2,295 for the month ending August 31, 2015.

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

16. Commitments and Contingencies (Continued)

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.

In March 2010, the Patient Protection and Affordable Care Act (the "Act") was signed into law. This Act will affect the delivery of healthcare services, reimbursement of healthcare providers and legal obligations of health insurers, providers and employers. This Act also includes a significant expansion of healthcare coverage, the use of electronic health records and changes to promote innovation and efficiency in healthcare. Some of its provisions were effective immediately; others will be phased in through 2014. SHC has already been impacted in a limited way by the coverage expansion provisions that went into effect on January 1, 2014, however, due to the delays in enrollment and other problems with the federal insurance exchange, it is still too early to quantify the overall impact of the changes that have already occurred, and to predict the impact of the changes yet to come.

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 34%. There are currently no expired agreements.

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

The California Office of Statewide Health Planning and Development ("OSHPD") has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards until 2030 and beyond. Certain patient care activities are located in existing buildings that are structurally compliant until 2030. However, these facilities have utility system configurations that must be modified no later than January 1, 2020 in order to remain in use for acute patient care. SHC is constructing a new hospital facility to address seismic safety requirements, which will also enable retrofit work of the existing hospital facility utility infrastructure.

Amendments of the Hospital Seismic Safety Act, through Senate Bill 90, allow extensions to compliance timelines for hospitals that meet certain eligibility requirements. SHC has received approval from the State to extend the compliance deadline to mid-2019 for all buildings subject to the requirement. These extensions will allow sufficient time to construct the new hospital and mitigate the deficiencies of the existing facility.

(in thousands of dollars)

16. Commitments and Contingencies (Continued)

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of the Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. SHC's share of the estimated cost is approximately $2 billion. As of August 31, 2014, SHC has capitalized $556 million related to this project.

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

17. Functional Expenses

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

	2014	2013
Patient services	$ 2,492,488	$ 2,259,222
Management and general	218,544	194,407
Fundraising	9,043	7,376
Total functional expenses	$ 2,720,075	$ 2,461,005

18. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 10, 2014, the date the financial statements were issued.

In May 2014, ValleyCare Health System ("VCHS") announced plans to affiliate with SHC. VCHS has provided high quality, not-for-profit health care to the Tri-Valley and surrounding communities since 1961. VCHS offers a wide range of health care services at its Livermore, Pleasanton, and Dublin medical facilities. In September 2014, after respective Boards agreed to the terms, SHC and VCHS signed the affiliation agreement. In November 2014, this affiliation agreement was approved by VCHS's corporate membership; however it is still subject to customary regulatory reviews.