ANNUAL DISCLOSURE REPORT
OF
STANFORD HEALTH CARE
FOR
THE FISCAL YEAR ENDED AUGUST 31, 2018

DATED DECEMBER 19, 2018

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I. INTRODUCTION

Pursuant to the following Continuing Disclosure Agreements (the "Disclosure Agreements") executed and delivered in connection with the related bond issues (the "Bonds"), Stanford Health Care (the "Corporation") hereby provides its annual disclosure report for the fiscal year ended August 31, 2018 (the "Annual Disclosure Report"):

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

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

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

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

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

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

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

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

Annual Report

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

Other Matters

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

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

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

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

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

Dated: December 19, 2018

STANFORD HEALTH CARE

By: /s/ Linda Hoff
Chief Financial Officer

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED AUGUST 31, 2015 AND 2014

The Audited Consolidated Financial Statements of the Corporation and subsidiaries (the "Financial Statements") for the fiscal year ended August 31, 2018 with comparative data for 2017 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, 2018.

	Debt Service									
Fiscal Year Ending August 31	2008 Series A	2008 Series B(1)	2010 Series A & B	2012 Series A & B	2012 Series C & D(1)	2015 Series A	2015 Series B(1)	2017 Series A	Taxable Series 2018 (2)	Total Debt Service
2019	1,944,250	2,506,180	6,943,000	25,319,150	2,944,000	4,812,500	1,485,000	21,655,950	27,436,341	95,046,371
2020	996,000	2,509,632	6,933,875	25,311,650	2,948,055	4,812,500	1,487,045	21,655,950	27,432,760	94,087,467
2021	2,571,000	2,502,728	6,929,000	24,822,900	2,939,945	4,812,500	1,482,955	21,655,950	27,436,277	95,153,254
2022	843,750	2,506,180	-	25,295,500	2,944,000	4,812,500	1,485,000	28,602,825	27,431,416	93,921,171
2023	-	2,506,180	-	24,801,500	2,944,000	4,812,500	1,485,000	30,693,825	27,432,703	94,675,708
2024	-	2,509,632	-	17,000,000	4,834,425	4,812,500	1,487,045	33,956,075	27,434,475	92,034,152
2025	-	2,502,728	-	17,000,000	4,885,622	4,812,500	1,482,955	37,318,825	27,431,256	95,433,886
2026	-	2,506,180	-	17,000,000	4,932,066	4,812,500	1,485,000	37,281,450	27,432,478	95,449,674
2027	-	2,506,180	-	17,000,000	4,982,992	4,812,500	1,485,000	37,176,450	27,432,476	95,395,598
2028	-	2,509,632	-	17,230,000	5,036,047	4,812,500	1,487,045	37,126,950	27,435,586	95,637,760
2029	-	2,502,728	-	17,318,500	5,095,943	4,812,500	1,482,955	37,054,825	27,436,145	95,703,595
2030	-	2,506,180	-	17,352,000	5,150,147	4,812,500	1,485,000	37,012,450	27,433,582	95,751,859
2031	-	2,506,180	-	17,423,000	5,208,768	4,812,500	1,485,000	36,942,200	27,432,234	95,809,882
2032	-	2,509,632	-	17,479,500	5,273,986	4,812,500	1,487,045	36,872,075	27,431,342	95,866,080
2033	-	2,502,728	-	17,527,000	5,341,426	4,812,500	1,482,955	36,848,075	27,435,052	95,949,736
2034	-	2,506,180	-	17,720,750	5,407,118	4,812,500	1,485,000	36,645,575	27,432,604	96,009,728
2035	-	2,506,180	-	17,938,250	5,477,110	4,812,500	1,485,000	36,429,800	27,433,241	96,082,080
2036	-	2,509,632	-	22,267,750	5,553,018	4,812,500	1,487,045	32,085,400	27,431,107	96,146,453
2037	-	2,502,728	-	22,553,000	5,631,677	4,812,500	1,482,955	32,137,650	27,435,255	96,555,765
2038	-	2,506,180	-	20,015,250	5,712,292	4,812,500	1,485,000	34,793,025	27,434,735	96,758,982
2039	-	2,506,180	-	19,449,250	6,332,398	4,812,500	1,485,000	34,824,500	27,433,694	96,843,523
2040	-	2,509,632	-	19,862,000	6,507,977	4,812,500	1,487,045	34,318,200	27,431,183	96,928,537
2041	-	2,502,728	-	21,985,500	6,950,486	4,812,500	1,482,955	31,869,900	27,431,158	97,035,227
2042	-	33,227,892	-	26,907,750	7,852,363	4,812,500	1,485,000	-	27,432,481	101,717,986
2043	-	33,804,146	-	26,963,000	8,013,453	4,812,500	1,485,000	-	27,434,013	102,512,111
2044	-	34,860,933	-	26,616,500	8,131,901	4,812,500	1,487,045	-	27,434,616	103,343,495
2045	-	35,643,177	-	26,546,750	8,294,128	4,812,500	1,482,955	-	27,433,151	104,212,660
2046	-	36,607,724	-	26,334,250	8,437,881	4,812,500	1,485,000	-	27,433,384	105,110,739
2047	-	-	-	56,609,750	15,133,859	4,812,500	1,485,000	-	27,433,989	105,475,097
2048	-	-	-	56,377,750	15,568,239	4,812,500	1,487,045	-	27,433,636	105,679,170
2049	-	-	-	56,196,250	15,961,238	4,812,500	1,482,955	-	27,435,902	105,888,845
2050	-	-	-	56,002,750	16,376,335	4,812,500	1,485,000	-	-	78,676,585
2051	-	-	-	55,807,500	16,802,982	4,812,500	1,485,000	-	-	78,907,982
2052	-	-	-	-	-	36,657,500	25,885,510	-	-	62,543,010
2053	-	-	-	-	-	36,652,750	26,019,882	-	-	62,672,632
2054	-	-	-	-	-	36,655,500	26,146,733	-	-	62,802,233
Total	6,355,000	231,786,011	20,805,875	874,034,700	233,605,877	268,778,250	127,057,125	764,957,925	850,438,270	3,377,819,033

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

IV. SELECTED FINANCIAL AND OPERATING DATA WITH RESPECT TO THE FISCAL YEARS ENDED AUGUST 31, 2018 AND 2017

The Selected Financial and Operating Data with Respect to the Fiscal Years Ended August 31, 2018 and 2017 below should be read in conjunction with the Financial Statements and accompanying notes.

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

(i)
Historical Utilization

	Three Months Ended August,	
	2018	**2017**
Discharges		
Acute	26,067	25,142
Behavioral Health	837	800
Total	**26,904**	**25,942**
Patient Days		
Acute	144,224	145,957
Behavioral Health	9,321	9,541
subtotal	**153,545**	**155,498**
Short Stay OP	16,881	16,245
Total	**170,426**	**171,743**
Average Daily Census		
Acute	395.1	399.9
Behavioral Health	25.5	26.1
Total	**420.7**	**426.0**
Average Length of Stay		
Acute	5.5	5.8
Behavioral Health	11.1	11.9
Total	**5.7**	**6.0**
Case Mix Index	2.45	2.45
Emergency room visits*	76,115	73,900
Short Stay OP procedures	44,018	40,934
Other Outpatient visits	805,401	769,291
Surgeries		
Inpatient	12,942	13,698
Outpatient	24,032	22,651
Total	**36,974**	**36,349**

Source: Corporation records

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

(ii)
Historical Consolidated Capitalization
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2018	**2017**
Debt		
Long-term debt, net of current portion	$ 1,711,967	$ 1,189,529
Current portion	14,505	148,335
Debt subject to short-term remarketing	228,200	228,200
Total debt*	1,954,672	1,566,064
Consolidated net assets	3,304,125	2,893,173
Total consolidated capitalization	$ 5,258,797	$ 4,459,237
Debt as a Percentage of Total Consolidated Capitalization	37.2%	35.1%

* Includes unamortized original issue premium.

(iii)
Liquidity
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2018	**2017**
Cash and cash equivalents	$ 652,256	$ 710,109
Investments	982,084	411,452
Investments in University managed pool	1,400,839	1,287,193
Less temporarily and permanently restricted assets	(93,800)	(90,559)
Total liquid assets	$ 2,941,379	$ 2,318,195
Days Cash On Hand	243.3	208.1

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

	Fiscal Years Ended August 31,	
	2018	**2017**
Excess of revenues over expenses	$ 470,243	$ 484,518
Depreciation and amortization expense	176,742	154,686
Interest expense	35,434	43,643
Change in value of University managed pools	(110,983)	(84,911)
Interest rate swap mark to market adjustment	(63,439)	(85,368)
Earnings on Equity Method Investments	(7,048)	(5,114)
Loss on extinguishment of debt and swaps	47,613	0
Funds available for debt service	$548,562	$507,454
Maximum annual debt service	$105,984	$86,261
Maximum Annual Debt Service Coverage	5.2	5.9

(v)
Sources of Gross Patient Service Revenue

	Fiscal Year Ended August 31,	
	2018	2017
Medicare	35.5%	34.9%
Medi-Cal	2.9	3.2
Managed Care – Capitation	-	-
Managed Care – Discounted Fee for Services	55	55.1
Indemnity Insurance, Self-Pay, Other	6.6	6.8
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
13033LHM2	11/15/2018	4.00	475,000
13033LHN0	11/15/2019	4.00	225,000
13033LHP5	11/15/2020	4.00	675,000

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

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
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

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

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
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

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

CUSIP	Maturity Date	Current Commercial Paper Interest Rate (%)	Original Principal Amount
13033LNX1	11/15/2045	1.75	$ 42,050,000

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

CUSIP	Maturity Date	Current Commercial Paper Interest Rate (%)	Original Principal Amount
13033LNY9	11/15/2045	1.74	$ 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
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

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

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

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

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
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	0.91	$ 60,000,000

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

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

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

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

APPENDIX B

Audited Consolidated Financial Statements
for the Fiscal Years Ended
August 31, 2018 and 2017

Stanford Health Care

Consolidated Financial Statements and Accompanying Consolidating Information August 31, 2018 and 2017

Stanford Health Care
Index
August 31, 2018 and 2017

Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the accompanying consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries, which comprise the consolidated balance sheets as of August 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stanford Health Care and its subsidiaries as of August 31, 2018 and 2017, 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 4, 2018

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Stanford Health Care
Consolidated Balance Sheets
August 31, 2018 and 2017
(in thousands of dollars)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 652,256	$ 710,109
Short term investments	391,314	233,533
Patient accounts receivable, net of allowance for doubtful accounts of $208,000 and $191,000 at August 31, 2018 and 2017, respectively	623,077	610,734
Other receivables	79,036	71,112
Inventories	58,884	56,559
Prepaid expenses and other	52,886	42,528
Total current assets	1,857,453	1,724,575
Investments	509,781	111,664
Investments at equity	80,989	66,255
Investments in University managed pools	1,400,839	1,287,193
Assets limited as to use, held by trustee	-	58,134
Property and equipment, net	3,279,048	2,869,346
Other assets	86,739	112,445
Total assets	$ 7,214,849	$ 6,229,612

	2018	2017
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 449,192	$ 307,899
Accrued salaries and related benefits	209,490	255,759
Due to related parties	98,942	71,429
Third-party payor settlements	34,474	18,149
Current portion of long-term debt	14,505	13,335
Revolving line of credit	-	135,000
Debt subject to short-term remarketing arrangements	228,200	228,200
Self-insurance reserves and other	54,933	45,854
Total current liabilities	1,089,736	1,075,625
Self-insurance reserves and other, net of current portion	139,841	130,816
Swap liability	182,527	245,966
Other long-term liabilities	122,944	31,363
Pension liability	6,650	51,745
Long-term debt, net of current portion	1,711,967	1,189,529
Total liabilities	3,253,665	2,725,044
Net assets:		
Unrestricted:		
Stanford Health Care	3,285,398	2,871,113
Noncontrolling interests	18,727	22,060
Total unrestricted	3,304,125	2,893,173
Temporarily restricted	648,826	603,251
Permanently restricted	8,233	8,144
Total net assets	3,961,184	3,504,568
Total liabilities and net assets	$ 7,214,849	$ 6,229,612

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, 2018 and 2017
(in thousands of dollars)

	2018	2017
Operating revenues:		
Net patient service revenue	$ 4,735,366	$ 4,311,530
Provision for doubtful accounts	(57,437)	(77,004)
Net patient service revenue less provision for doubtful accounts	4,677,929	4,234,526
Premium revenue	92,654	80,647
Other revenue	135,597	129,324
Net assets released from restrictions used for operations	4,366	9,904
Total operating revenues	4,910,546	4,454,401
Operating expenses:		
Salaries and benefits	2,091,260	1,986,360
Professional services	46,146	42,851
Supplies	667,379	586,056
Purchased services	1,216,992	1,136,020
Depreciation and amortization	176,742	154,686
Interest	35,434	43,643
Other	477,661	384,354
Expense recoveries from related parties	(121,727)	(113,451)
Total operating expenses	4,589,887	4,220,519
Income from operations	320,659	233,882
Interest and investment income	31,122	15,325
Earnings on equity method investments	7,048	5,114
Increase in value of University managed pools	110,984	144,829
Swap interest and change in value of swap agreements	48,043	85,368
Loss on extinguishment of debt	(47,613)	-
Excess of revenues over expenses	470,243	484,518
Other changes in unrestricted net assets:		
Transfer to Stanford University	(98,183)	(69,376)
Transfer from Lucile Salter Packard Children's Hospital	2,068	-
Change in net unrealized gains on investments	9,438	1,058
Net assets released from restrictions used for:		
Purchase of property and equipment	309	1,320
Change in pension and postretirement liability	28,277	6,182
Noncontrolling capital (distribution) contributions	(1,200)	301
Increase in unrestricted net assets	410,952	424,003
Changes in temporarily restricted net assets:		
Transfer from Stanford University	2,177	2,748
Contributions and other	44,894	28,541
Investment income	712	4,662
Gains on University managed pools	2,467	1,438
Net assets released from restrictions used for:		
Operations	(4,366)	(9,904)
Purchase of property and equipment	(309)	(1,320)
Increase in temporarily restricted net assets	45,575	26,165
Changes in permanently restricted net assets:		
Contributions	89	250
Increase in permanently restricted net assets	89	250
Increase in net assets	456,616	450,418
Net assets, beginning of year	3,504,568	3,054,150
Net assets, end of year	$ 3,961,184	$ 3,504,568

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2018 and 2017
(in thousands of dollars)

	2018	2017
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 459,949	$ 448,491
Change in noncontrolling interests	(3,333)	1,927
Total change in net assets	456,616	450,418
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	47,613	-
Depreciation and amortization	174,665	152,840
Provision for doubtful accounts	57,437	77,004
Change in fair value of interest rate swaps	(63,439)	(85,368)
Increase in value of University managed pools	(110,984)	(144,829)
Unrealized gains on investments	(10,700)	(5,138)
Excess of income of equity method investees over distributions received	(2,047)	(12,154)
Contributions received for long lived assets or endowment	(37,958)	(21,989)
Net equity transfers to/from related parties	93,938	66,628
Premiums received from bond issuance	76,138	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(69,780)	(127,805)
Due to related parties	4,274	(24,877)
Other receivables, inventory, other assets, prepaid expenses and other	1,108	4,152
Accounts payable, accrued liabilities and pension liabilities	89,663	(22,131)
Accrued salaries and related benefits	(46,269)	18,940
Third-party payor settlements	16,325	(4,799)
Self-insurance reserves	18,104	14,444
Cash provided by operating activities	694,704	335,336
Cash flows from investing activities:		
Purchases of investments	(593,592)	(204,822)
Sales of investments	47,143	68,350
Purchases of investments at equity	(10,843)	(12,752)
Purchases of investments in University managed pools	(1,524)	(1,764)
Sales of investments in University managed pools	119	179,989
Swap settlement payments, net	(15,393)	-
Decrease in assets limited as to use and other	58,134	177,654
Purchases of property and equipment	(474,735)	(635,550)
Cash used in investing activities	(990,691)	(428,895)
Cash flows from financing activities:		
Proceeds from issuance of debt	954,200	-
(Repayment) borrowing on revolver	(135,000)	135,000
Costs of issuance of debt	(6,783)	(71)
Payment of long-term debt and capital lease obligations	(544,331)	(18,708)
Contributions received for long lived assets or endowment	40,747	55,899
Net equity transfers to/from related parties	(70,699)	(58,912)
Cash provided by financing activities	238,134	113,208
Net (decrease) increase in cash and cash equivalents	(57,853)	19,649
Cash and cash equivalents, beginning of year	710,109	690,460
Cash and cash equivalents, end of year	$ 652,256	$ 710,109
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 33,033	$ 45,439
Supplemental disclosures of non cash information:		
Increase (decrease) in payables for property and equipment	$ 111,562	$ (13,356)
Equity transfers to related parties, net	(28,563)	(7,690)
Assets and liabilities acquired under capital leases	479	1,191

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

1. Organization

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

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

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

UHA, a physician medical foundation, supports SHC's mission of delivering quality care to the community and conducting research and education. In addition, UHA leads the development of a high quality clinical delivery network, built on collaboration with and sponsorship of community hospitals, on behalf of the SoM, SHC, and UHA physicians. The SoM and SHC are the members of UHA, and appoint directors to the governing board. The UHA bylaws afford control to SHC. Effective January 1, 2011, SHC entered into a sponsorship agreement with UHA whereby SHC agreed to certain funding for the development and operation of UHA and continued additional funding for future or alternative clinical sites of UHA. Additional funding by SHC to UHA for operations and capital was $45,070 and $73,617 for the years ended August 31, 2018 and 2017, respectively.

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

SBC is a limited liability company organized effective July 31, 2015. SBC serves as a community blood center and provides blood products and testing services to hospitals, clinics, companies and other clients. SHC is the sole member of SBC. On September 30, 2015, SBC completed the acquisition of the Stanford Blood Center from the University for $36,000.

SEROC was originally formed as a joint venture between SHC and Emanuel Medical Center ("EMC"). On July 31, 2014, EMC transferred its membership interest to Doctors Medical Center of Modesto, Inc. ("DMC"). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. SHC's interest in SEROC was 60% for the years ended August 31, 2018 and 2017. The remaining interest of 40% is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets as of August 31, 2018 and 2017.

1. Organization (Continued)

CareCounsel, a leading provider of employer-sponsored health advocacy and health care assistance services, was acquired by SHC effective July 18, 2012. The Bay Area company was founded in 1996 with a mission to help employees, retirees and their families navigate the complex health care environment through an employer-sponsored benefit that provides consumer education, advocacy and access to expert health care resources and information.

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

SHC's share of net assets in SUMIT, a captive insurance carrier, was 80.6% and 79.7% for the years ended August 31, 2018 and 2017, respectively. LPCH's share of net assets in SUMIT was 19.4% and 20.3% for the years ended August 31, 2018 and 2017, respectively, and is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets.

TRA was formed on September 19, 2012 and began operations on December 1, 2012. TRA provides risk management services to SHI, the owners of SHI and other affiliated and unaffiliated parties and serves as attorney-in-fact to PEAC. In October 2017, TRA acquired the assets and assumed the liabilities of PHT Services, Ltd., a South Carolina risk management services corporation. SHC's share of net assets in TRA was 82% for the years ended August 31, 2018 and 2017. The remaining interest of 18% is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets as of August 31, 2018 and 2017.

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 68.5% and 71.4% for the years ended August 31, 2018 and 2017, respectively. The remaining interest of 31.5 % and 28.6% for the years ended August 31, 2018 and 2017, respectively, is recorded as a noncontrolling interest in unrestricted net assets on the consolidated balance sheets.

SHC Advantage, a non-profit public benefit corporation, provides comprehensive healthcare coverage options to elderly and disabled eligible Medicare populations of Santa Clara and Alameda Counties through their Medicare Advantage Plan and is solely controlled by SHC. This service is offered to Medicare-eligible residents of Santa Clara and Alameda Counties effective January 1, 2015 and January 1, 2018, respectively.

SIMS RAK FZE was formed in January 2016 to provide consulting and project management services in the United Arab Emirates. There was no significant activity for the years ended August 31, 2018 and 2017.

SMI Hong Kong was formed in May 2016, as a holding company for business activities in China. There was no significant activity for the years ended August 31, 2018 and 2017.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of SHC and its subsidiaries, which are controlled by SHC. All significant inter-company accounts and transactions are eliminated in the consolidation.

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

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

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

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

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

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

Cash and Cash Equivalents

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

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 sheet at August 31, 2017. There were no assets limited as to use in the consolidated balance sheet at August 31, 2018.

Inventories

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

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments held directly by SHC consist of cash and cash equivalents, mutual funds and investments in non-public entities and are stated at fair value. Fair value is determined in accordance with current accounting guidance as further described in Note 7. Investment earnings (including realized gains and losses on investments, interest, dividends and impairment loss on investment securities) 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 at Equity

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

The mission of StartX, a California nonprofit public benefit corporation, is to accelerate the development of students, faculty and alumni of the University identified by StartX as high potential entrepreneurs through an experiential educational program. StartX Fund is a California limited liability company created to support the continued experiential education of participants in the StartX accelerator program. SHC's interest in StartX Fund was 33% for the years ended August 31, 2018 and 2017.

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, 2018 and 2017.

PPA II is a California limited liability company which owns and operates a medical office building in Pleasanton. SHC-VC's interest in PPA II was 39% for the years ended August 31, 2018 and 2017.

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

Investments in University Managed Pools

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

2. Summary of Significant Accounting Policies (Continued)

Investments in University Managed Pools (continued)

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

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

Property and Equipment

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

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

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

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

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

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

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently accreted over the useful lives of the related assets. Changes in ARO for the years ended August 31, are as shown below:

	2018	2017
Balance, beginning of the year	$ 8,265	$ 7,868
Liabilities incurred	4,401	-
Accretion	1,790	397
Change in estimates	79,164	-
Balance, end of the year	$ 93,620	$ 8,265

Other Assets

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

Contributions Receivable

Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as 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. Current and long-term portions of contributions receivable are included in other receivables and other assets in the consolidated balance sheets, respectively, and contribution revenue is included in the consolidated financial statements in the appropriate net asset category. Amortization of the discount is included in contributions and other in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

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

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

Interest Rate Swap Agreements

SHC entered into several interest rate swap agreements to reduce the effect of interest rate fluctuation on its variable rate bonds. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. Changes in the fair value of interest rate swaps are included in excess of revenues over expenses. In fiscal year 2018, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as an increase (decrease) to swap interest and change in value of swap agreements in the consolidated statements of operations and changes in net assets. In fiscal year 2017, swap settlements of $17,195 were recorded in interest expense.

2. Summary of Significant Accounting Policies (Continued)

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets 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. Thus, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

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.

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

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

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

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

Self-Insurance Plans

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

- ***Professional Liability —*** SHC, SHC-VC and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC-VC and SBC also maintain professional liability reserves for claims not covered by SUMIT which total $7,304, $1,376 and $75 as of August 31, 2018, respectively. As of August 31, 2017, this coverage was $5,249, $817 and $64 for SHC, SHC-VC and SBC, respectively. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence. The next $165,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.

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

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

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

Fair Value of Financial Instruments

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

2. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

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

SHC's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of patients and 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, ARO, 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 2017 consolidated financial statements to conform to the 2018 presentation. Such reclassifications had no effect on excess of revenues over expenses as previously reported.

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.

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements (continued)

Revenue recognition - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. In August 2015, the FASB voted to defer the implementation of the new guidance. The guidance is effective for SHC during the fiscal year ending August 31, 2019, and should be applied on a retrospective or modified retrospective basis. SHC has decided to adopt the modified retrospective basis. The implementation of this ASU will also result in a change in bad debt expense presentation. Under this ASU, bad debt will be presented as an operating expense, rather than a net patient service revenue deduction.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The guidance is effective for SHC during the fiscal year ending August 31, 2019. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which adds, modifies, and removes some fair value measurement disclosure requirements. The guidance is effective for SHC during the fiscal year ending August 31, 2021. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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

Not-for-profit reporting - In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which modifies current NFP reporting requirements. The ASC update changes the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The guidance is effective for SHC during the fiscal year ending August 31, 2019, and should be applied on a retrospective basis. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements (continued)

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

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

3. Net Patient Service Revenue

SHC has agreements with third-party 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.

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

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

- ***Managed Care Organizations*** — SHC entered into agreements with numerous third-party 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 Preferred Provider Organizations ("PPOs"), which reimburse SHC at contracted or per diem rates, which are usually less than full charges. PPOs give their members multiple choices in health care and health care providers.

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

- ***Uninsured*** — For uninsured patients that do not qualify for charity care, SHC recognizes revenue on the basis of its standard rates for services less an uninsured discount applied to the patient's account that approximates the average discount for managed care 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:

	2018	2017
Medicare	$ 892,195	$ 858,076
Medi-Cal	140,788	93,699
Managed Care - Discounted Fee for Services	3,498,434	3,108,719
Self pay and other	160,605	206,191
Related party	43,344	44,845
Patient service revenue, net of contractual allowances	$ 4,735,366	$ 4,311,530
Provision for doubtful accounts	(57,437)	(77,004)
Net patient service revenue	$ 4,677,929	$ 4,234,526

SHC recognized net patient service revenue adjustments of $880 and $24,265 as a result of prior years favorable developments related to reimbursement for the years ended August 31, 2018 and 2017, respectively. SHC also recognized revenues of $1,556 as a result of prior years appeals settled during the year ended August 31, 2018.

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

	2018	2017
Blue Cross	24%	21%
Medicare	13%	14%
Blue Shield	10%	11%

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

California Hospital Quality Assurance Fee Program

The State of California enacted Senate Bill 239 in October 2013 which established the Hospital Quality Assurance Fee ("HQAF") and Hospital Fee programs for January 1, 2014 through June 30, 2019. CMS has approved, and SHC has recognized as revenue on the date of approval, supplemental payments related to the following programs and periods:

- Fee-for-service programs for January 1, 2014 through June 30, 2019.
- Managed care programs for the expansion population for January 1, 2014 through December 31, 2014.
- Managed care programs for the non-expansion population for January 1, 2014 through June 30, 2015.

For the years ended August 31, 2018 and 2017, respectively, SHC recognized $89,718 and $45,616 in net patient service revenue for Medi-Cal Fee-For-Service (''FFS'') and Managed Care supplemental payments provided for under the California provider fee programs. Of the $89,718 recognized for the year ended August 31, 2018, $10,626 was related to periods awaiting CMS approval. The amount of $10,626 is equivalent to amounts paid by SHC to the provider fee program, which SHC expects, at a minimum, to receive back from the State of California.

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program (continued)
Remaining programs awaiting CMS approval include:

- Managed care programs for the expansion population for January 1, 2015 through December 31, 2016.
- Managed care programs for the non-expansion population for July 1, 2015 through December 31, 2016.

For the years ended August 31, 2018 and 2017, respectively, SHC recognized $77,302 and $41,594 in other expense for HQAF paid to the California Department of Health Care Services. Expenses were paid for the same CMS approved programs noted above.

California's participation in the provider fee program, as authorized under federal regulations, has been made permanent by the passage of Proposition 52, an initiative on the November 2016 ballot. The first iteration of the hospital provider fee program under the permanent legislation covering the period from January 1, 2017 to June 30, 2019 has been approved by CMS for the FFS program only. Accordingly, any potential activity under the Managed Care program related to January 1, 2017 through August 31, 2018 has not been recorded in the consolidated financial statements.

SHC recorded $49,546 and $6,230 in deferred revenue as of August 31, 2018 and 2017, respectively, pending CMS approval.

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:

	2018	2017
Charity care at established rates	$ 112,471	$ 99,916
Estimated cost of charity care, net	$ 24,813	$ 21,997

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 $876 and $663 during the years ended August 31, 2018 and 2017, respectively, from contributions that were restricted for the care of indigent patients.

(in thousands of dollars)

4. Charity Care and Uncompensated Costs (continued)

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

	2018	2017
Charity care	$ 24,813	$ 21,997
Medi-Cal	258,003	343,594
Medicare	718,188	629,967
Total	$ 1,001,004	$ 995,558

5. Contributions Receivable

Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using a discount rate of 3.21% for new receivables recorded in fiscal year 2018 and 2.11% for receivables recorded in fiscal year 2017.

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

	2018	2017
In one year or less	$ 34,906	$ 14,772
Between one year and five years	52,023	82,647
More than five years	7,000	2,750
	93,929	100,169
Less: discount/allowance	(9,394)	(10,161)
Total contributions receivable, net	84,535	90,008
Less: current portion	(31,847)	(13,668)
Contributions receivable, net of current portion	$ 52,688	$ 76,340

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

	2018	2017
Plant replacement and expansion	$ 90,954	$ 94,517
Other patient and clinical services	2,975	5,652
Total	$ 93,929	$ 100,169

There were no conditional pledges at August 31, 2018 and 2017.

(in thousands of dollars)

6. Investments and Investments in University Managed Pools

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

	2018		2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short term investments:				
Mutual funds	$ 390,244	$ 391,314	$ 233,463	$ 233,533
Investments:				
Cash and cash equivalents	$ 48,583	$ 48,583	$ 44,552	$ 44,552
Mutual funds	450,914	460,302	65,455	66,399
Other	873	896	696	713
Total	$ 500,370	$ 509,781	$ 110,703	$ 111,664

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

	Fair Value	
	2018	**2017**
Investments in University managed pools:		
Merged Pool	$1,393,429	$1,280,875
Expendable Funds Pool	7,410	6,318
Total	$1,400,839	$1,287,193

The MP is the primary investment pool in which funds are invested. The MP is invested with the objective of maximizing long-term total return. It is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value.

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

	Allocation	
	2018	**2017**
Cash and Cash Equivalents	2%	3%
Fixed Income	7%	7%
Public Equities	26%	27%
Real Estate	7%	8%
Natural Resources	9%	9%
Absolute Return	20%	20%
Private Equities	29%	26%
Total	100%	100%

7. Fair Value Measurements

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

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

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

These levels are:

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

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

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

7. Fair Value Measurements (Continued)

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

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

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 710,109	$ -	$ -	$ 710,109
Short term investments:				
Mutual funds	233,533	-	-	233,533
Assets limited as to use, held by trustee:				
Cash and cash equivalents	58,134	-	-	58,134
Investments:				
Cash and cash equivalents	44,552	-	-	44,552
Mutual funds	66,399	-	-	66,399
Other	-	-	713	713
Investments	110,951	-	713	111,664
Total assets in the fair value hierarchy	$ 1,112,727	$ -	$ 713	1,113,440
Investments measured at NAV practical expedient:				
Investments in University managed pools				1,287,193
Total assets at fair value				$ 2,400,633
Liabilities				
Interest rate swap instruments	$ -	$ 245,966	$ -	$ 245,966

During the preparation of the consolidated financial statements, management determined that mutual funds held in 2017 were classified as level 2 investments and should have been classified as level 1. Management corrected the 2017 leveling table to include those 2017 investments in level 1 in the table above. Management does not believe that this change is material to the 2017 consolidated financial statements.

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:

	2018	2017
Balance, beginning of year	$ 713	$ 209
Purchases	183	504
Balance, end of year	$ 896	$ 713

(in thousands of dollars)

8. Property and Equipment

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

	2018	2017
Land and improvements	$ 68,844	$ 68,885
Buildings and leasehold improvements	1,694,056	1,446,312
Equipment	1,185,244	1,052,857
	2,948,144	2,568,054
Less: Accumulated depreciation	(1,638,721)	(1,467,545)
Construction-in-progress	1,969,625	1,768,837
Property and equipment, net	$ 3,279,048	$ 2,869,346

Depreciation and amortization expense totaled $176,742 and $154,686 for the years ending August 31, 2018 and 2017, respectively, and is included in the consolidated statements of operations and changes in net assets.

Medical and office equipment acquired under capital leases totaled $9,416 and $9,294 as of August 31, 2018 and 2017, respectively, and building improvements acquired under capital leases totaled $1,970 as of August 31, 2018 and 2017, are included in property and equipment in the consolidated balance sheets. Amortization expense under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets. Accumulated amortization was $9,416 and $8,608 as of August 31, 2018 and 2017, 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 $27,718 and $25,815 for the years ended August 31, 2018 and 2017, respectively.

(in thousands of dollars)

9. Debt Obligations

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

	Face Value	Fiscal Years of Maturity	Effective Interest Rates 2018 / 2017	Outstanding Principal 2018	2017
Fixed Rate Obligations					
Tax-Exempt					
2008 Series A-1 Refunding Revenue Bonds	$ 70,360	2019-2021	3.79%/5.14%	$ 1,375	$ 67,410
2008 Series A-2 Refunding Revenue Bonds	104,100	2019-2022	3.65%/5.32%	2,475	99,725
2008 Series A-3 Refunding Revenue Bonds	84,165	2019-2022	3.65%/5.29%	2,000	80,615
2010 Series A Refunding Revenue Bonds	149,345	2019-2021	3.76%/4.66%	19,325	119,315
2010 Series B Refunding Revenue Bonds	146,710	2026-2037	4.95%	-	146,710
2012 Series A Revenue Bonds	340,000	2028-2051	3.98%	340,000	340,000
2012 Series B Refunding Revenue Bonds	68,320	2019-2023	2.36%/2.30%	35,420	41,340
2015 Series A Revenue Bonds	100,000	2052-2054	4.10%	100,000	100,000
2017 Series A Refunding Revenue Bonds	454,200	2022-2041	2.81%	454,200	-
Taxable					
2018 Series Revenue Bonds	500,000	2049	3.80%	500,000	-
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042-2046	1.38%/0.84%	168,200	168,200
2012 Series C Revenue Bonds	60,000	2039-2051	1.81%/1.04%	60,000	60,000
2012 Series D Revenue Bonds	100,000	2020-2051	1.79%/1.23%	100,000	100,000
2015 Series B Revenue Bonds	75,000	2024-2054	1.94%/1.38%	75,000	75,000
Taxable					
Revolving Line of Credit		2020	1.53%	-	135,000
Total principal amounts				1,857,995	1,533,315
Unamortized original issue premiums/discounts, net				108,890	43,606
Unamortized costs of issuance				(12,213)	(10,857)
Current portion of long-term debt				(14,505)	(13,335)
Revolving line of credit, current				-	(135,000)
Debt subject to short-term remarketing arrangements				(228,200)	(228,200)
Long-term portion, net of current portion				$ 1,711,967	$ 1,189,529

Debt Issuance Activity

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

Payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a pledge against the revenues of SHC secured under a master trust indenture between SHC and the master trustee. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem some of its bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of $1,857,995 and $1,533,315 as of August 31, 2018 and 2017, respectively.

(in thousands of dollars)

9. Debt Obligations (Continued)

Debt Issuance Activity (continued)
In May 2017, SHC entered into a $200,000 revolving credit facility. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable London Interbank Offered Rate ("LIBOR") plus a specified spread. No amounts were outstanding as of August 31, 2018. The amount outstanding on this credit facility was $135,000 as of August 31, 2017.

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

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

Variable Rate Debt
Interest on the 2008 Series B-1 bonds resets weekly and the bonds are remarketed every 7 days at the then prevailing interest rate. 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 and 2015 Series B bonds are in a floating index mode with monthly interest rate resets and are directly placed with U.S. Bank. The 2012 Series D and 2015 Series B bonds are not subject to remarketing or tender until May 13, 2020 and June 28, 2024, respectively. Both series of bonds are classified as long-term liabilities.

In the event SHC receives notice of any optional tender of the 2008 Series B-1 bonds or the 2012 Series C bonds, or if any bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, SHC has an obligation to purchase any remaining bonds. SHC maintains sufficient liquidity to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

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

	Scheduled Maturities	Bonds Supported by SHC Liquidity	Total
2019	$ 14,505	$ 228,200	$ 242,705
2020	14,235	-	14,235
2021	16,045	-	16,045
2022	15,505	-	15,505
2023	17,065	-	17,065
Thereafter	1,552,440	-	1,552,440
	$ 1,629,795	$ 228,200	$ 1,857,995

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term obligations includes debt subject to short term remarketing arrangements and payments scheduled to be made in 2019.

(in thousands of dollars)

9. Debt Obligations (Continued)

The estimated fair value of SHC revenue bonds as of August 31, 2018 and 2017 was $1,956,292 and $1,517,350, respectively, and is considered level 2 based on the inputs used to value the revenue bonds as defined in Note 7.

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

	Amount Advance Refunded	Amount Outstanding as of August 31,	
	Total	2018	2017
1993 Series	$ 89,520	$ 6,335	$ 12,095
2008 Series A-1	65,610	65,610	-
2008 Series A-2	96,625	96,625	-
2008 Series A-3	78,090	78,090	-
2010 Series A	94,150	94,150	-
2010 Series B	146,710	146,710	-
Total	$ 570,705	$ 487,520	$ 12,095

Interest Rate Swap Agreements

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

SHC currently has nine outstanding interest rate exchange agreements that were originally entered into in 2003, 2006 and 2008 with maturities through November 2051. Various agreements were amended and restated to forward interest rate swaps in 2010 and 2012. The effective dates of these amended agreements became 2012 and 2016, respectively.

The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2018:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
2008 Series A-1	67,125	11/01/2040	3.693%	70% 1-month LIBOR
2008 Series A-2	102,775	11/15/2051	3.999%	67% 1-month LIBOR
2008 Series A-3	84,600	11/15/2051	3.902%	67% 1-month LIBOR
Subtotal LIBOR Swaps	254,500			
2012 Series A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
2012 Series B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
2012 Series C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	$ 575,400			

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

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

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

	Fair Value		
Description	2018	2017	Balance Sheet Location
Fixed Payment Swaps	$ 182,527	$ 245,966	Swap liability

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 Gains		
Description	2018	2017	Statement of Operations Location
Fixed Payment Swaps	$ 63,439	$ 85,368	Swap interest and change in value of swap agreements

SHC has two swap agreements which require mutual posting of collateral by SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount. There was no collateral posted at August 31, 2018. There was $10,090 of cash collateral posted by SHC at August 31, 2017.

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:

	2018	2017
Interest and fees	$ 33,473	$ 25,976
Swap settlements	-	17,195
Bond interest expense	$ 33,473	$ 43,171
Interest capitalized as a cost of construction	$ 27,718	$ 25,815

9. Debt Obligations (Continued)

Bond Interest Expense (continued)
In fiscal year 2018, SHC recorded all swap settlements in swap interest and change in value of swap agreements on the consolidated statements of operations and changes in net assets. In fiscal year 2017, swap settlements were recorded in interest expense on the consolidated statements of operations and changes in net assets.

10. Retirement Plans

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

Defined Contribution Retirement Plan
Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees, excluding LPCH employees (see Note 13), totaling $98,503 and $83,262, UHA employer contributions totaling $4,571 and $3,485 and SHC-VC employer contributions totaling $8,290 and $3,737, for the years ended August 31, 2018 and 2017, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

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

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received $168 and $187 in cash for the years ending August 31, 2018 and 2017, respectively, which represented the current year pension expense related to LPCH employees.

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

The valuation of the Staff Pension Plan uses assumptions for future mortality improvements. For the fiscal year ending August 31, 2017, these assumptions were updated to include four additional years of Social Security Administration data resulting in a small decrease to the benefit obligation.

For the fiscal year ending August 31, 2017, the valuation of the Staff Pension Plan reflects updated demographic assumptions for retirement, withdrawal, and benefit commencement age for terminated vested participants. These assumptions were developed from the results of the 2017 experience study, which was based on census data for the Staff Pension Plan for the 2014 through 2017 plan years, and slightly decreased the benefit obligation.

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

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2018 and 2017, respectively.

(in thousands of dollars)

10. Retirement Plans (Continued)

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $77,544 and $84,179 as of August 31, 2018 and 2017, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $60,146 and $65,823 as of August 31, 2018 and 2017, respectively, which represents the liability for SHC employees excluding LPCH employees.

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2018	2017	2018	2017
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 193,476	$ 191,021	$ -	$ -
Actual return on plan assets	7,477	13,794	-	-
Employer contributions	34,800	3,207	5,098	6,439
Participants contributions	-	-	860	925
Plan settlements	(41,204)	-	-	-
Benefits paid	(12,921)	(12,811)	(6,247)	(7,524)
Medicare subsidies received	-	-	289	160
Expenses paid	(698)	(1,735)	-	-
Fair value of plan assets at end of year	$ 180,930	$ 193,476	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 245,221	$ 256,484	$ 84,179	$ 76,644
Service cost	1,611	2,842	2,501	2,317
Interest cost	8,485	8,296	2,685	2,422
Participants contributions	-	-	860	925
Plan settlements	(41,204)	-	-	-
Benefits paid	(12,921)	(12,811)	(6,247)	(7,524)
Medicare subsidies received	-	-	289	160
Expenses paid	(698)	(1,735)	-	-
Plan amendments	-	-	(671)	5,136
Actuarial (gain) loss	(12,914)	(7,855)	(6,052)	4,099
Benefit obligation at end of year	$ 187,580	$ 245,221	$ 77,544	$ 84,179
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (6,650)	$ (51,745)	$ (77,544)	$ (84,179)
Net benefit liability recognized	$ (6,650)	$ (51,745)	$ (77,544)	$ (84,179)
Amounts recognized in consolidated balance sheets:				
Current liabilities	$ -	$ -	$ (7,193)	$ (7,063)
Noncurrent liabilities	(6,650)	(51,745)	(70,351)	(77,116)
Net benefit liability recognized	$ (6,650)	$ (51,745)	$ (77,544)	$ (84,179)
Amounts recognized in unrestricted net assets:				
Prior service cost	$ -	$ -	$ (5,363)	$ (7,636)
Net (loss) gain	(55,059)	(77,362)	14,589	9,117
Unrestricted net assets	$ (55,059)	$ (77,362)	$ 9,226	$ 1,481

(in thousands of dollars)

10. 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 $1,361.

The estimated net gain and prior service cost for the Postretirement Medical Benefit Plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $924 and $1,426, respectively.

The accumulated benefit obligation for the Staff Pension Plan was $186,182 and $243,235 as of August 31, 2018 and 2017, respectively.

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

	Staff Pension Plan Obligations	
	2018	2017
Service cost	$ 1,611	$ 2,842
Interest cost	8,485	8,296
Expected return on plan assets	(12,786)	(10,682)
Amortization of net actuarial loss	2,605	3,012
Settlement loss recognized	12,094	-
Total net periodic benefit cost	$ 12,009	$ 3,468

	Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2018	2017
Service cost	$ 2,501	$ 2,317
Interest cost	2,685	2,422
Amortization of prior service cost	1,602	1,602
Amortization of net actuarial gain	(580)	(915)
Total net periodic benefit cost	$ 6,208	$ 5,426

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	
	2018	2017	2018	2017
Net (gain) loss arising during period	$ (7,604)	$ (10,967)	$ (6,052)	$ 4,099
New prior service cost	-	-	(671)	5,136
Amortizations				
Prior service cost	-	-	(1,602)	(1,602)
(Loss) gain	(14,699)	(3,012)	580	915
Total recognized in unrestricted net assets	$ (22,303)	$ (13,979)	$ (7,745)	$ 8,548
Total recognized in net periodic benefit cost and unrestricted net assets	$ (10,294)	$ (10,511)	$ (1,537)	$ 13,974

(in thousands of dollars)

10. Retirement Plans (Continued)

Actuarial Assumptions

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2018	2017	2018	2017
Weighted-average assumptions				
Discount rate	4.07%	3.56%	3.96%	3.33%
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	
	2018	2017	2018	2017
Weighted-average assumptions				
Discount rate	3.56%	3.32%	3.33%	3.07%
Expected return on plan assets	6.00%	6.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The evaluation of the historical returns and the future expected returns resulted in the use of 6% as the assumption for the expected return on plan assets.

To determine the accumulated post-retirement benefit obligation as of August 31, 2018, a 6.5% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2018, declining gradually to 4.5% by 2038, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the 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 $1,699 and the aggregate service and interest cost by $81. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated post-retirement benefit obligation by $1,554 and the aggregate service and interest cost by $97.

Plan Assets

SHC's Staff Pension Plan weighted-average asset allocations as of the measurement date August 31, 2018 and 2017, respectively, by asset category are as follows:

Asset Category	August 31, 2018	August 31, 2017
Debt securities	60%	50%
Equity securities	40%	50%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (Continued)

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

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

	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,247	$ -	$ -	$ 1,247
Mutual funds	192,229	-	-	192,229
Total assets	$ 193,476	$ -	$ -	$ 193,476

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

The allowable asset mix range and target asset allocations are:

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

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

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

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

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Investments (continued)

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

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the above–mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying our exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2018, 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, 2019. SHC expects to contribute $5,596 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2019.

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
2019	$ 10,721	$ 7,193	$ 7,337
2020	11,115	6,919	7,060
2021	11,469	6,957	7,094
2022	11,756	6,968	7,100
2023	11,947	6,788	6,915
2024 - 2028	60,731	31,766	32,297

(in thousands of dollars)

11. Unrestricted Net Assets

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

	Total	Controlling Interest	Noncontrolling Interests
Balance as of September 1, 2016	$ 2,469,170	$ 2,449,037	$ 20,133
Excess of revenues over expenses	484,518	482,781	1,737
Noncontrolling capital distribution	301	-	301
Other changes in unrestricted net assets	(60,816)	(60,705)	(111)
Balance as of August 31, 2017	2,893,173	2,871,113	22,060
Excess of revenues over expenses	470,243	471,954	(1,711)
Noncontrolling capital contributions	(1,200)	-	(1,200)
Other changes in unrestricted net assets	(58,091)	(57,669)	(422)
Balance as of August 31, 2018	$ 3,304,125	$ 3,285,398	$ 18,727

12. Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

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

	2018	2017
Plant replacement and expansion	$ 580,669	$ 540,785
Other patient services	48,308	42,520
Clinical services	8,015	8,342
Indigent care	7,298	7,314
Education	4,536	4,290
Total	$ 648,826	$ 603,251

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 thousands of dollars)

12. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently Restricted Net Assets (continued)
In accordance with UPMIFA, SHC considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

Endowment funds by net asset classification as of August 31, 2018 and 2017 are as follows:

	2018			2017		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment	$ 13,982	$ 8,233	$ 22,215	$ 12,567	$ 8,144	$ 20,711
Total endowment	$ 13,982	$ 8,233	$ 22,215	$ 12,567	$ 8,144	$ 20,711

Changes in SHC's endowment for the years ended August 31, 2018 and 2017 are as follows:

	2018			2017		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,567	$ 8,144	$ 20,711	$ 10,723	$ 7,894	$ 18,617
Investment return:						
Investment income	541	-	541	491	-	491
Mark to market adjustments	1,256	-	1,256	1,717	-	1,717
Total investment return	1,797	-	1,797	2,208	-	2,208
Contributions	-	89	89	-	250	250
Expenditures	(382)	-	(382)	(364)	-	(364)
Endowment net assets, end of year	$ 13,982	$ 8,233	$ 22,215	$ 12,567	$ 8,144	$ 20,711

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, 2018 and 2017 is as follows:

	2018			2017		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Clinical services	$ 1,516	$ 4,339	$ 5,855	$ 1,302	$ 4,250	$ 5,552
Education	5,558	1,435	6,993	4,975	1,435	6,410
Indigent care and other	6,908	2,459	9,367	6,290	2,459	8,749
Total endowment classified as net assets	$ 13,982	$ 8,233	$ 22,215	$ 12,567	$ 8,144	$ 20,711

12. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently Restricted Net Assets (continued)
All of SHC's endowment, totaling $22,215 and $20,711 at August 31, 2018 and 2017, respectively, are invested in the MP. The funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

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

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

13. Related-Party Transactions

Transactions with the University and SoM
SHC has various transactions with the University and the SoM. SHC records expense transactions where direct and incremental economic benefits are received by SHC.

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 $739,908 and $678,239 for the years ended August 31, 2018 and 2017, respectively.

Services provided by the University and other SoM non-physician services include telecommunications, transportation, utilities, and certain administrative services, such as legal and internal audit. Total costs incurred by SHC were $96,559 and $99,451 for the years ended August 31, 2018 and 2017, 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 $2,369 and $2,376 for the years ended August 31, 2018 and 2017, 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 15 years total $16,967. Annual service fees range from approximately $2,249 for the year ending August 31, 2019 to $688 for the year ending August 31, 2033.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
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 $45,351 and $38,088 for the years ended August 31, 2018 and 2017, 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 $6,058 and $6,767 for the years ended August 31, 2018 and 2017, 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, 2018 and 2017. The remaining amount included in other assets in the consolidated balance sheets is $3,594 and $3,702 as of August 31, 2018 and 2017, respectively.

For the years ended August 31, 2018 and 2017, SHC transferred $98,183 and $69,071, 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, 2017, SHC also transferred $305 to the University which represented excess consideration paid in the acquisition of the Stanford Blood Center. Total transfers of $98,183 and $69,376 for the years ended August 31, 2018 and 2017, 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 $2,177 and $2,748 during the years ended August 31, 2018 and 2017, respectively, which represented restricted gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC patient care services and the New Stanford Hospital and are included in changes in temporarily restricted net assets in the consolidated statements of operations and changes in net assets.

Transactions with LPCH
SHC and LPCH share certain departments, including facilities design and construction, materials management, managed care contracting, compliance and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $33,725 and $31,360 for the years ended August 31, 2018 and 2017, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $43,344 and $44,845 for the years ended August 31, 2018 and 2017, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with LPCH (continued)
Other services provided by SHC include services provided by interns and residents, building maintenance, IT and utilities. Reimbursement of these services totaled $41,931 and $40,681 for the years ended August 31, 2018 and 2017, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

During the year ended August 31, 2018, SHC received $2,068 from LPCH which represented reimbursement for capital projects.

14. Operating and Capital Leases

SHC leases various equipment and facilities under non-cancelable lease agreements expiring at various dates. Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the years ended August 31, 2018 and 2017 was $116,264 and $97,667, respectively.

Net minimum future lease payments under all non-cancelable operating leases and capital lease obligations for periods subsequent to August 31, 2018 are as follows:

Year Ending August 31,	Operating	Capital
2019	$ 78,207	$ 123
2020	68,465	107
2021	59,364	107
2022	55,917	107
2023	50,066	30
Thereafter	83,000	-
	$ 395,019	474
Less amount representing interest		(45)
Subtotal		429
Current portion		(105)
Long-term portion, net of current portion		$ 324

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, 2018 are as follows:

Year Ending August 31,	
2019	$ 2,823
2020	1,946
2021	1,541
2022	1,601
2023	941
Thereafter	9,223
	$ 18,075

15. Commitments and Contingencies

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

SHC has irrevocable standby letters of credit in the amount of $19,647, which are required as security for the workers' compensation self-insurance arrangements and $2,210 to serve as a security deposit for certain construction projects being undertaken by SHC. No amounts have been drawn on these letters of credit as of August 31, 2018.

At August 31, 2018, SHC had contractual obligations of approximately $274,056 primarily related to the construction of the new hospital and other capital projects and approximately $402,930 to support SHC's operations, such as maintenance, food services, valet services and other purchased services.

Effective December 23, 2014, SHC entered into a five-year agreement with a global technology services and outsourcing company, pursuant to which SHC will receive certain information technology services. Under the terms of the agreement, SHC will be charged fixed fees for one-time transition services, ongoing recurring and event-based fees for information technology services, and additional fees plus expenses for project work agreed upon pursuant to work orders. SHC has the right to extend the agreement for up to two consecutive one-year periods. SHC anticipates that it will spend approximately $36,000 over the initial term of the agreement. 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, what services are terminated, and changes monthly from $884 to terminate all services in the month ending September 30, 2018 and decreasing gradually to $459 for the month ending December 31, 2019.

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

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

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 29%. There are currently no expired agreements.

(in thousands of dollars)

15. Commitments and Contingencies (Continued)

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

The California Office of Statewide Health Planning and Development has classified a substantial portion of Stanford Hospital as compliant with seismic safety structural standards through 2030 and beyond. Certain patient care activities are located in three existing buildings that are structurally compliant only until 2030, at which time, they must be removed from general acute care service. However, these buildings have utility system configurations that must be modified to support inpatient functions until they are removed from acute care service. SHC is constructing a new hospital facility to address the structural seismic safety requirements, and work is in progress now to remedy the utility infrastructure deficiencies by January 1, 2020.

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

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of a Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. SHC's share of the estimated cost is approximately $2.1 billion. As of August 31, 2018, SHC has capitalized $1,806 million, inclusive of $151 million in capitalized interest, related to this project.

Based on current estimated schedules, management projects that the Renewal Project construction will be complete in late 2019.

16. Functional Expenses

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

	2018	2017
Patient services	$ 4,119,260	$ 3,811,682
Management and general	457,722	396,871
Fundraising	12,905	11,966
Total functional expenses	$ 4,589,887	$ 4,220,519

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 4, 2018, the date the consolidated financial statements were issued.

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Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries as of and for the year ended August 31, 2018 and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

December 4, 2018

Stanford Health Care
Consolidating Balance Sheet
August 31, 2018
(in thousands of dollars)

	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total
Assets											
Current assets:											
Cash and cash equivalents	$ 553,299	$ 7,466	$ 35,974	$ 20,546	$ 8,939	$ 8,151	$ 4,804	$ 205	$ 12,872	$ -	$ 652,256
Short term investments	391,314	-	-	-	-	-	-	-	-	-	391,314
Patient accounts receivable, net of allowance for doubtful accounts	562,351	29,794	28,650	-	-	2,282	-	-	-	-	623,077
Other receivables	70,709	3,210	2,526	567	652	20	2,594	246	882	(2,370)	79,036
Inventories	50,163	1,436	5,977	1,308	-	-	-	-	-	-	58,884
Prepaid expenses and other	40,651	9,431	1,180	201	283	445	606	19	99	(29)	52,886
Due from related parties	28,889	2,487	3,299	5,565	47	-	-	-	-	(40,287)	-
Total current assets	**1,697,376**	**53,824**	**77,606**	**28,187**	**9,921**	**10,898**	**8,004**	**470**	**13,853**	**(42,686)**	**1,857,453**
Investments	432,991	-	-	-	67,565	-	9,225	-	-	-	509,781
Investments at equity	74,053	-	7,250	-	(314)	-	-	-	-	-	80,989
Investments in University managed pools	1,355,901	-	-	-	44,938	-	-	-	-	-	1,400,839
Property and equipment, net	3,056,571	27,878	184,647	5,476	892	3,501	-	83	-	-	3,279,048
Other assets	131,123	7,916	3,284	-	5,023	-	126	17	311	(61,061)	86,739
Investments in related entities	329,182	4,153	-	-	-	-	-	-	-	(333,335)	-
Total assets	**$ 7,077,197**	**$ 93,771**	**$ 272,787**	**$ 33,663**	**$ 128,025**	**$ 14,399**	**$ 17,355**	**$ 570**	**$ 14,164**	**$ (437,082)**	**$ 7,214,849**
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued liabilities	$ 390,881	$ 23,044	$ 17,657	$ 3,498	$ 3,958	$ 129	$ 1,412	$ 81	$ 8,729	$ (197)	$ 449,192
Accrued salaries and related benefits	172,075	24,195	13,172	-	-	-	-	48	-	-	209,490
Due to related parties	109,314	3,299	19,143	3,673	1,940	319	47	681	813	(40,287)	98,942
Third-party payor settlements	34,644	-	(170)	-	-	-	-	-	-	-	34,474
Current portion of long-term debt	14,505	-	2,202	-	-	-	-	-	-	(2,202)	14,505
Debt subject to short-term remarketing arrangements	228,200	-	-	-	-	-	-	-	-	-	228,200
Self-insurance reserves and other	26,998	2,094	2,322	295	23,095	-	-	-	129	-	54,933
Total current liabilities	**976,617**	**52,632**	**54,326**	**7,466**	**28,993**	**448**	**1,459**	**810**	**9,671**	**(42,686)**	**1,089,736**
Self-insurance reserves and other, net of current portion	85,136	-	4,327	75	40,471	-	9,832	-	-	-	139,841
Swap liability	182,527	-	-	-	-	-	-	-	-	-	182,527
Other long-term liabilities	113,900	1,749	68,088	-	268	-	-	-	-	(61,061)	122,944
Pension liability	6,650	-	-	-	-	-	-	-	-	-	6,650
Long-term debt, net of current portion	1,711,967	-	-	-	-	-	-	-	-	-	1,711,967
Total liabilities	**3,076,797**	**54,381**	**126,741**	**7,541**	**69,732**	**448**	**11,291**	**810**	**9,671**	**(103,747)**	**3,253,665**
Net assets:											
Unrestricted											
Stanford Health Care	3,343,728	39,390	145,597	26,122	47,057	8,371	4,153	(240)	4,493	(333,273)	3,285,398
Noncontrolling interests	-	-	-	-	11,236	5,580	1,911	-	-	-	18,727
Total unrestricted	**3,343,728**	**39,390**	**145,597**	**26,122**	**58,293**	**13,951**	**6,064**	**(240)**	**4,493**	**(333,273)**	**3,304,125**
Temporarily restricted	648,439	-	449	-	-	-	-	-	-	(62)	648,826
Permanently restricted	8,233	-	-	-	-	-	-	-	-	-	8,233
Total net assets	**4,000,400**	**39,390**	**146,046**	**26,122**	**58,293**	**13,951**	**6,064**	**(240)**	**4,493**	**(333,335)**	**3,961,184**
Total liabilities and net assets	**$ 7,077,197**	**$ 93,771**	**$ 272,787**	**$ 33,663**	**$ 128,025**	**$ 14,399**	**$ 17,355**	**$ 570**	**$ 14,164**	**$ (437,082)**	**$ 7,214,849**

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

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2018
(in thousands of dollars)

	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total
Operating revenues:											
Net patient service revenue	$ 4,171,957	$ 294,919	$ 279,447	$ -	$ -	$ 11,562	$ -	$ -	$ -	$ (22,519)	$ 4,735,366
Provision for doubtful accounts	(40,226)	(2,166)	(15,016)	-	-	(9)	-	-	(20)	-	(57,437)
Net patient service revenue less provision for doubtful accounts	4,131,731	292,753	264,431	-	-	11,553	-	-	(20)	(22,519)	4,677,929
Premium revenue	402	72,749	-	-	-	-	-	-	24,924	(5,421)	92,654
Other revenue	93,303	15,940	7,568	68,182	31,856	102	2,983	2,086	-	(86,423)	135,597
Net assets released from restrictions used for operations	4,295	-	71	-	-	-	-	-	-	-	4,366
Total operating revenues	**4,229,731**	**381,442**	**272,070**	**68,182**	**31,856**	**11,655**	**2,983**	**2,086**	**24,904**	**(114,363)**	**4,910,546**
Operating expenses:											
Salaries and benefits	1,813,246	111,416	161,031	7	-	2,355	-	3,132	202	(129)	2,091,260
Professional services	38,100	1,374	4,932	(133)	1,403	1,030	629	28	962	(2,179)	46,146
Supplies	562,984	69,185	39,219	15,941	101	115	-	16	3,111	(23,293)	667,379
Purchased services	1,039,959	222,497	50,920	35,625	14,072	878	-	219	32,360	(179,538)	1,216,992
Depreciation and amortization	153,318	7,712	14,014	994	231	467	-	6	-	-	176,742
Interest	35,268	37	2,246	4	1	1	-	-	-	(2,123)	35,434
Other	376,068	32,312	43,284	6,372	41,113	1,339	752	331	853	(24,763)	477,661
Expense recoveries from related parties	(220,668)	(17,186)	(2,597)	(204)	-	-	-	(1,255)	-	120,183	(121,727)
Total operating expenses	**3,798,275**	**427,347**	**313,049**	**58,606**	**56,921**	**6,185**	**1,381**	**2,477**	**37,488**	**(111,842)**	**4,589,887**
Income (loss) from operations	**431,456**	**(45,905)**	**(40,979)**	**9,576**	**(25,065)**	**5,470**	**1,602**	**(391)**	**(12,584)**	**(2,521)**	**320,659**
Interest and investment income	31,078	137	305	-	1,426	-	211	-	88	(2,123)	31,122
Earnings on equity method investments	6,794	-	254	-	-	-	-	-	-	-	7,048
Increase in value of University Managed pools	107,362	-	-	-	3,622	-	-	-	-	-	110,984
Swap interest and change in value of swap agreements	48,043	-	-	-	-	-	-	-	-	-	48,043
Loss on extinguishment of debt	(47,613)	-	-	-	-	-	-	-	-	-	(47,613)
Excess (deficiency) of revenues over expenses	**577,120**	**(45,768)**	**(40,420)**	**9,576**	**(20,017)**	**5,470**	**1,813**	**(391)**	**(12,496)**	**(4,644)**	**470,243**
Other changes in unrestricted net assets:											
Transfer to Stanford University	(98,183)	-	-	-	-	-	-	-	-	-	(98,183)
Transfer from Lucile Packard Children's Hospital	2,068	-	-	-	-	-	-	-	-	-	2,068
Transfer between SHC and SHC-VC	(64,236)	-	64,236	-	-	-	-	-	-	-	-
Change in net unrealized gains on investments	11,021	(134)	-	-	(1,381)	-	(202)	-	-	134	9,438
Net assets released from restrictions used for:											
Purchase of property and equipment	309	-	-	-	-	-	-	-	-	-	309
Change in pension and postretirement liability	28,277	-	-	-	-	-	-	-	-	-	28,277
Noncontrolling capital contribution (distribution), net	-	23,909	-	-	-	(3,000)	(129)	100	14,800	(36,880)	(1,200)
Increase (decrease) in unrestricted net assets	**456,376**	**(21,993)**	**23,816**	**9,576**	**(21,398)**	**2,470**	**1,482**	**(291)**	**2,304**	**(41,390)**	**410,952**
Changes in temporarily restricted net assets:											
Transfer from Stanford University	2,177	-	-	-	-	-	-	-	-	-	2,177
Contributions and other	44,703	-	191	-	-	-	-	-	-	-	44,894
Investment income	712	-	-	-	-	-	-	-	-	-	712
Gains on University managed pools	2,467	-	-	-	-	-	-	-	-	-	2,467
Net assets released from restrictions used for:											
Operations	(4,295)	-	(71)	-	-	-	-	-	-	-	(4,366)
Purchase of property and equipment	(309)	-	-	-	-	-	-	-	-	-	(309)
Increase in temporarily restricted net assets	**45,455**	**-**	**120**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**45,575**
Changes in permanently restricted net assets:											
Contributions	89	-	-	-	-	-	-	-	-	-	89
Increase in permanently restricted net assets	**89**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**89**
Increase (decrease) in net assets	501,920	(21,993)	23,936	9,576	(21,398)	2,470	1,482	(291)	2,304	(41,390)	456,616
Net assets, beginning of year	3,498,480	61,383	122,110	16,546	79,691	11,481	4,582	51	2,189	(291,945)	3,504,568
Net assets, end of year	**$ 4,000,400**	**$ 39,390**	**$ 146,046**	**$ 26,122**	**$ 58,293**	**$ 13,951**	**$ 6,064**	**$ (240)**	**$ 4,493**	**$ (333,335)**	**$ 3,961,184**

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