Stanford Health Care

Consolidated Financial Statements
and Accompanying Consolidating Information
August 31, 2021 and 2020

Stanford Health Care
Index
August 31, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

San Francisco, CA
December 1, 2021

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Stanford Health Care
Consolidated Balance Sheets
August 31, 2021 and 2020
(in thousands of dollars)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 407,044	$ 1,642,912
Assets limited as to use, held by trustee	-	92
Short term investments	74,888	-
Patient accounts receivables, net	764,948	654,342
Other receivables	156,168	165,737
Inventories	113,421	125,082
Prepaid expenses and other	133,328	108,587
Total current assets	1,649,797	2,696,752
Investments	2,058,925	689,110
Investments at equity	134,228	116,975
Investments in University managed pools	2,528,927	1,610,737
Property and equipment, net	3,619,451	3,646,012
Right of use lease assets	292,588	341,580
Other assets	61,507	58,533
Total assets	$ 10,345,423	$ 9,159,699
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 609,021	$ 908,249
Accrued salaries and related benefits	395,637	287,411
Due to related parties	64,063	52,128
Third-party payor settlements	55,659	55,112
Current portion of long-term debt	15,505	116,045
Debt subject to remarketing arrangements	168,200	168,200
Operating lease liabilities, current	79,055	76,066
Self-insurance reserves and other	75,300	58,186
Total current liabilities	1,462,440	1,721,397
Self-insurance reserves and other, net of current portion	218,960	224,858
Swap liabilities	285,654	353,292
Operating lease liabilities, non-current	233,244	287,053
Other long-term liabilities	165,559	180,333
Pension liability	-	8,655
Long-term debt, net of current portion	2,135,075	2,056,663
Total liabilities	4,500,932	4,832,251
Net assets:		
Without donor restrictions:		
Stanford Health Care	5,663,080	4,169,459
Noncontrolling interests	30,078	24,446
Total without donor restrictions	5,693,158	4,193,905
With donor restrictions	151,333	133,543
Total net assets	5,844,491	4,327,448
Total liabilities and net assets	$ 10,345,423	$ 9,159,699

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, 2021 and 2020
(in thousands of dollars)

	2021	2020
Operating revenues and other support:		
Net patient service revenue	$ 6,052,048	$ 5,140,938
Premium revenue	118,741	116,971
Grants - COVID-19	406,265	124,551
FEMA	4,202	-
Other revenue	179,462	174,293
Net assets released from restrictions used for operations	11,490	10,823
Total operating revenues and other support	6,772,208	5,567,576
Operating expenses:		
Salaries and benefits	2,813,222	2,548,259
Professional services	49,496	38,463
Supplies	968,544	820,403
Purchased services	1,513,638	1,458,959
Depreciation and amortization	289,263	257,725
Interest	76,903	68,019
Other	448,357	460,483
Expense recoveries from related parties	(50,559)	(105,779)
Total operating expenses	6,108,864	5,546,532
Income from operations	663,344	21,044
Interest and investment income	47,822	43,973
Earnings on equity method investments	41,596	19,592
Change in value of University managed pools and other	784,864	161,720
Swap interest and change in value of swap agreements	46,274	(53,722)
Other components of net periodic benefit costs	(1,960)	(2,070)
Loss on extinguishment of debt	(2,558)	-
Excess of revenues over expenses	1,579,382	190,537
Other changes in net assets without donor restrictions:		
Transfers to Stanford University	(100,386)	(98,367)
Transfers from Lucile Salter Packard Children's Hospital	99	-
Change in net unrealized loss on investments	(2,406)	(1,249)
Net assets released from restrictions used for:		
Purchase of property and equipment	1,016	3,248
Purchase of property and equipment - New Stanford Hospital	18,224	555,219
Change in pension and postretirement liability	9,396	1,042
Noncontrolling capital distribution	(1,870)	(2,400)
Loss from discontinued operations	(4,202)	-
Increase in net assets without donor restrictions	1,499,253	648,030
Changes in net assets with donor restrictions:		
Transfers from Stanford University	1,353	162
Contributions and other	34,860	22,084
Investment income	880	929
Gains on University managed pools	11,427	2,885
Net assets released from restrictions used for:		
Operations	(11,490)	(10,823)
Purchase of property and equipment	(1,016)	(3,248)
Purchase of property and equipment - New Stanford Hospital	(18,224)	(555,219)
Increase (decrease) in net assets with donor restrictions	17,790	(543,230)
Increase in net assets	1,517,043	104,800
Net assets, beginning of year	4,327,448	4,222,648
Net assets, end of year	$ 5,844,491	$ 4,327,448

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2021 and 2020
(in thousands of dollars)

	2021	2020
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 1,511,411	$ 107,265
Change in noncontrolling interests	5,632	(2,465)
Total change in net assets	1,517,043	104,800
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	2,558	-
Depreciation and amortization	284,583	254,619
Change in fair value of interest rate swaps	(67,638)	36,496
Increase in value of University managed pools	(606,759)	(125,020)
Unrealized gains on investments	(185,958)	(36,916)
Excess of income on equity method investees over distributions received	(19,630)	(20,784)
Contributions received for long lived assets or endowment	(25,195)	(23,055)
Net equity transfers to/from related parties	98,934	98,205
Premiums received from bond issuance	17,287	19,885
Changes in operating assets and liabilities:		
Patient accounts receivable	(110,606)	31,083
Due to related parties	(46,455)	(8,288)
Other receivables, inventory, other assets, prepaid expenses and other	(14,725)	(145,207)
Accounts payable, accrued liabilities and pension liabilities	(305,751)	509,198
Accrued salaries and related benefits	108,226	12,312
Third-party payor settlements	547	25,194
Self-insurance reserves	11,216	49,580
Cash provided by operating activities	657,677	782,102
Cash flows from investing activities:		
Purchases of investments	(1,303,116)	(50,217)
Sales of investments	43,412	464,921
Purchases of investments in University managed pools	(301,890)	(6,774)
Sales of investments in University managed pools	717	1,076
Swap settlement payments, net	(21,420)	(16,825)
Purchases of property and equipment	(262,522)	(310,641)
Cash (used in) provided by investing activities	(1,844,819)	81,540
Cash flows from financing activities:		
Proceeds from issuance of debt	522,815	470,120
Costs of issuance of debt	(3,966)	(4,006)
Payment of long-term debt and finance lease obligations	(552,615)	(74,134)
Contributions received for long lived assets or endowment	25,164	24,015
Net equity transfers to/from related parties	(40,216)	(142,153)
Cash (used in) provided by financing activities	(48,818)	273,842
Net (decrease) increase in cash and cash equivalents	(1,235,960)	1,137,484
Cash and cash equivalents, beginning of year	1,643,004	505,520
Cash and cash equivalents, end of year	$ 407,044	$ 1,643,004
Supplemental data:		
Cash and cash equivalents as shown on the consolidated balance sheets	$ 407,044	$ 1,642,912
Restricted cash included in assets limited as to use, held by trustee	-	92
Total cash and cash equivalents as shown on the statement of cash flows	$ 407,044	$ 1,643,004
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 81,580	$ 69,105
Supplemental disclosures of non cash information:		
Decrease in payables for property and equipment	$ (1,636)	$ (100,190)
Equity transfers from (to) related parties, net	433	(3,012)

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

1. Organization

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

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

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

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

SHC-VC, a 242 licensed bed community hospital system located in the East Bay's Tri-Valley region of Pleasanton, Livermore, and Dublin, California offers both inpatient and outpatient services. SHC is the sole corporate member. SHC-VC also owns Tri-Valley Ambulatory Services Center, LLC ("ASC") organized in October 2019. ASC's operations are targeted to commence by spring of 2022.

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

SEROC is a joint venture between SHC and the Doctors Medical Center of Modesto, Inc. ("DMC"). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. SHC's interest in SEROC was 60% for the years ended August 31, 2021 and 2020. The remaining interest of 40% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2021 and 2020.

1. Organization (Continued)

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

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

SHC's share of net assets in SUMIT, a captive insurance carrier, was 77.5% and 77.8% for the years ended August 31, 2021 and 2020, respectively. LPCH's share of net assets in SUMIT was 22.5% and 22.2% for the years ended August 31, 2021 and 2020, respectively, and is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

TRA provides risk management services to SHI and serves as attorney-in-fact to PEAC. TRA sold the assets of PHT Services, Ltd., a South Carolina risk management services wholly owned corporation, on August 31, 2020 to Health Care Risk Services South Carolina Ltd. SHC's share of net assets in TRA is 82% and the remaining 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2021 and 2020.

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 56.9% and 59.4% for the years ended August 31, 2021 and 2020, respectively. The remaining interest of 43.1% and 40.6% for the years ended August 31, 2021 and 2020, respectively, is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

SHC Advantage, a non-profit public benefit corporation, provides comprehensive healthcare coverage options to elderly and disabled eligible Medicare populations and is controlled solely by SHC. On December 6, 2019, an acquisition agreement was entered into with Essence Plan Holdings, LLC (''Essence''). Upon closing, on August 1, 2021, SHC Advantage became a part of Essence Healthcare Inc, a subsidiary of Essence. SHC retains a 17% ownership interest in Essence.

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

2. Summary of Significant Accounting Policies

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

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

- ***Net Assets Without Donor Restrictions*** — Net assets without donor restrictions represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on net assets without donor restrictions are broad limits resulting from the nature of SHC and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements, if any.

- ***Net Assets With Donor Restrictions*** — Net assets with donor restrictions represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of SHC pursuant to those stipulations or by the passage of time or are subject to donor-imposed restrictions that they be maintained permanently by SHC. Generally, the donors of these assets permit SHC to use all or part of the investment return on these assets.

Expenses are generally reported as decreases in net assets without donor restrictions. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Net assets with donor restricted contributions are recorded as contributions with donor restrictions when received and when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of operations and changes in net assets. Investment income on net assets with donor restrictions that is restricted by donor or law is recorded in the category of net assets with donor restrictions and when the restriction expires, the net assets are shown as released from restriction.

Cash and Cash Equivalents
Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash equivalents consist primarily of demand deposits and money market mutual funds. Cash and cash equivalents that are held for investment purpose are classified as investments, as further described in Note 6. SHC has elected the policy to treat cash equivalents as short-term investments, therefore, excluded from cash and cash equivalents on the consolidated statements of cash flows.

Assets Limited as to Use, Held by Trustee
Assets limited as to use include various accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash. Amounts required to fund current liabilities have been classified as current assets in the consolidated balance sheet at August 31, 2021. There were $0 and $92 assets limited as to use in the consolidated balance sheet at August 31, 2021 and 2020, respectively.

2. Summary of Significant Accounting Policies (Continued)

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

Investments
Investments held directly by SHC consist of cash and cash equivalents, mutual funds, and investments in non-public entities and are stated at fair value. Fair value is determined in accordance with current accounting guidance, as further described in Note 7. Investment earnings (including realized gains and losses on investments, interest, and dividends on investment securities) net of investment expenses are included in investment income unless the income or loss is restricted by donor or law. Income on investments of donor restricted funds is added to or deducted from the appropriate net asset category based on the donor's restriction. Unrealized gains and losses on other than debt securities classified as other-than-trading are reported above the performance indicator.

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

The mission of StartX, a California nonprofit public benefit corporation, is to accelerate the development of students, faculty and alumni of the University identified by StartX as high potential entrepreneurs through an experiential educational program. StartX Fund is a California limited liability company created to support the continued experiential education of participants in the StartX accelerator program. SHC's interest in StartX Fund was 33% for the years ended August 31, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020. AIMS has ceased operations and effective December 1, 2020 was formally dissolved.

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

2. Summary of Significant Accounting Policies (Continued)

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

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

Income on investments of donor restricted funds invested in the University managed pools is added to or deducted from the appropriate net asset category based on the donor's restriction.

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

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

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

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

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets and Liquid Resources (continued)

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

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

	2021	2020
Financial assets:		
Cash and cash equivalents	$ 407,044	$ 1,642,912
Accounts receivable, net	764,948	654,342
Short-term investments	74,888	-
Investments in mutual funds	1,417,179	556,960
Separately Managed accounts	489,713	-
10% of long-term investments in Merged Pool	241,110	152,300
Financial assets available to meet cash needs for general expenditure within one year	$ 3,394,882	$ 3,006,514
Liquid resources:		
Revolving line of credit capacity	100,000	200,000
Total financial assets and liquid resources available within one year	$ 3,494,882	$ 3,206,514

In November 2020, SHC extended its revolving line of credit facility until November 2021 and reduced its size to $150,000, of which $50,000 is earmarked for the issuance of stand-by letters of credit as described further in Note 9 and Note 17.

Property and Equipment

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

Land improvements	10 to 25 years
Buildings and leasehold improvements	7 to 50 years
Equipment	3 to 20 years

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment (continued)

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

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

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

Asset Retirement Obligations

Asset retirement obligations (“ARO”) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value as other long-term liabilities and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets in property and equipment. Asset retirement costs are subsequently accreted over the useful lives of the related assets.

Leases

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Other Assets

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

Contributions Receivable

Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as net assets with donor restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the promises are received and are recorded in the category of net assets with donor restrictions. In accordance with current accounting guidance, the discount rates were determined using the risk free rate adjusted for the risk of donor default. Current and long-term portions of contributions receivable are included in other receivables and other assets in the consolidated balance sheets, respectively, and contribution revenue is included in the consolidated financial statements in the appropriate net asset category. Amortization of the discount is included in contributions and other in the consolidated statements of operations and changes in net assets. Conditional promises to give are recognized when the condition is substantially met.

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

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

Interest Rate Swap Agreements

SHC entered into several interest rate swap agreements to reduce the effect of interest rate fluctuation on its variable rate bonds. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. Changes in the fair value of interest rate swaps are included in excess of revenues over expenses. In fiscal year 2021 and 2020, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as an increase (decrease) to swap interest and change in value of swap agreements in the consolidated statements of operations and changes in net assets.

Excess of Revenues over Expenses (Performance Indicator)

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, include transfers of assets to and from affiliates for other than goods and services, change in unrealized gains and losses on debt securities classified as other-than-trading, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in pension and postretirement liability and other changes related to noncontrolling interests.

Net Patient Service Revenue

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

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

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

Income Taxes
SHC, UHA, SHC-VC and SHC Advantage are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. EBREV, OSV, SBC, SEROC, CareCounsel and SHI are limited liability companies and taxable income flows through to the individual members. SUMIT is currently exempt from all taxes until March 31, 2035. TRA is a limited liability company, but has elected to be taxed as a corporation. PEAC is a taxable corporation. SHC Advantage was acquired by Essence on August 1, 2021 and converted to a for-profit entity. SHC now owns 17% of Essence. SHC and its subsidiaries have no uncertain tax positions pertaining to unrelated business income.

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

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

2. Summary of Significant Accounting Policies (Continued)

Self-Insurance Plans (continued)

- ***Professional Liability*** — SHC, SHC-VC and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC-VC and SBC also maintain professional liability reserves for claims not covered by SUMIT which total $11,287, $970, and $72 as of August 31, 2021, respectively. As of August 31, 2020, this coverage was $10,513, $831, and $67 for SHC, SHC-VC and SBC, respectively. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence. The next $165,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.

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

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

- ***Health and Dental*** — Liabilities for health and dental claims for current employees are actuarially determined.

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2021 and 2020
The FASB ASC is the sole source of authoritative non-governmental GAAP.

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

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

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

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

Fair value disclosures – In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which adds, modifies, and removes some fair value measurement disclosure requirements. The portion of this guidance that modified and removed fair value disclosure requirements was early adopted in fiscal year 2019. The remaining guidance was adopted in fiscal year 2021 and it did not materially impact SHC's consolidated financial statements.

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

Collections – In March 2019, the FASB issued ASU 2019-03, *Updating Definition of Collections*. This ASU specifically addresses the use of proceeds from sales of collections and related disclosures. The guidance is effective for SHC during the fiscal year ending August 31, 2021 and it did not materially impact SHC's consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in future periods

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

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

Accounting for certain equity method investments – In January 2020, the FASB issued ASU 2020-01, *Clarifying the Interactions between Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. This ASU clarifies the accounting treatment of certain equity securities upon application or discontinuation of the equity method of accounting and clarifies accounting of forward contracts and purchased options for securities that will be accounted for under the equity method of accounting upon settlement or exercise. The guidance is effective for SHC during the fiscal year ending August 31, 2022. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

Reference rate reform – In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU contains optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. The guidance is effective for SHC during the fiscal year ending August 31, 2022. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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

3. Net Patient Service Revenue

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

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

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

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

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

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

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

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

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

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

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

	2021	2020
Medicare	$ 1,019,262	$ 921,709
Medi-Cal	131,372	108,751
Managed Care - Discounted Fee For Services	4,720,044	3,957,801
Self pay and other	140,074	114,470
Related party	41,296	38,207
Net patient service revenue	$ 6,052,048	$ 5,140,938

SHC recognized net patient service revenue adjustments of $9,791 and $10,750 as a result of prior years unfavorable developments related to reimbursement for the years ended August 31, 2021 and 2020, respectively. SHC also recognized revenues of $54 and $0 as a result of prior years appeals settled during the year ended August 31, 2021 and 2020.

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

	2021	2020
Blue Cross	31%	28%
Medicare	13%	16%
Aetna	13%	12%
Blue Shield	12%	11%
United Health	10%	8%

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

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program

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

- Fee-For-Service ("FFS") programs for January 1, 2014 through December 31, 2021.

For the years ended August 31, 2021 and 2020, respectively, SHC recognized $46,008 and $66,459 in net patient service revenue for Medi-Cal FFS and Managed Care supplemental payments provided for under the California provider fee programs.

For the years ended August 31, 2021 and 2020, respectively, SHC recognized $41,674 and $54,914 in other expense for HQAF paid to the California Department of Health Care Services. Expenses were paid for the same CMS approved programs noted above.

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

SHC recorded $103,480 and $53,510 in deferred revenue as of August 31, 2021 and 2020, respectively, pending CMS approval. SHC also recorded $54,639 and $30,402 as prepaid expense for the years ended August 31, 2021 and 2020 respectively, pending CMS approval. Deferred revenue and prepaid expenses associated with unapproved HQAF will be recognized as revenue and expense respectively, upon CMS approval.

4. Charity Care, Uncompensated Costs and Community Benefits

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

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

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

	2021	2020
Charity care at established rates	$ 92,465	$ 105,591
Estimated cost of charity care, net	$ 19,239	$ 23,432

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 $444 and $825 during the years ended August 31, 2021 and 2020, respectively, from contributions that were restricted for the care of indigent patients.

(in thousands of dollars)

4. Charity Care, Uncompensated Costs and Community Benefits (Continued)

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

	2021	2020
Charity care	$ 19,239	$ 23,432
Medi-Cal	426,352	382,437
Medicare	1,062,545	988,809
Total	$ 1,508,136	$ 1,394,678

5. Contributions Receivable

Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using a discount rate of 1.05% for new receivables recorded in fiscal year 2021 and 0.64% for receivables recorded in fiscal year 2020.

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

	2021	2020
In one year or less	$ 29,398	$ 29,932
Between one year and five years	19,755	18,116
More than five years	4,000	4,687
	53,153	52,735
Less: discount/allowance	(4,293)	(5,339)
Total contributions receivable, net	48,860	47,396
Less: current portion	(26,595)	(26,944)
Contributions receivable, net of current portion	$ 22,265	$ 20,452

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

	2021	2020
Plant replacement and expansion	$ 51,800	$ 51,765
Other patient and clinical services	1,353	970
Total	$ 53,153	$ 52,735

There were no conditional pledges at August 31, 2021 and 2020.

(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:

	2021		2020	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short term investments:				
Fixed income	$ 74,851	$ 74,888	$ -	$ -
Investments:				
Cash and cash equivalents	$ 60,003	$ 60,003	$ 55,522	$ 55,522
Fixed income	754,646	766,210	562,784	624,910
Public equity	996,208	1,211,571	-	-
Other	-	21,141	2,208	8,678
Total	$ 1,810,857	$ 2,058,925	$ 620,514	$ 689,110

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

	Fair Value	
	2021	**2020**
Investments in University managed pools:		
Merged Pool	$ 2,521,834	$ 1,604,095
Expendable Funds Pool	7,093	6,642
Total	$ 2,528,927	$ 1,610,737

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	
	2021	**2020**
Cash and cash equivalents	2%	5%
Fixed income	8%	7%
Public equities	25%	23%
Real estate	6%	8%
Natural resources	4%	4%
Absolute return	16%	19%
Private equities	39%	34%
Total	100%	100%

7. Fair Value Measurements

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

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

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

These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

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.

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

(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:

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

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 1,698,526	$ -	$ -	$ 1,698,526
Mutual funds	207,265	-	-	207,265
Public equities	362,683	-	-	362,683
Other	54,962	-	8,678	63,640
Total assets in the fair value hierarchy	$ 2,323,436	$ -	$ 8,678	2,332,114
Investments measured at NAV practical expedient:				
Investments in University managed pools				1,610,737
Total assets at fair value				$ 3,942,851
Liabilities				
Interest rate swap instruments	$ -	$ 353,292	$ -	$ 353,292

(in thousands of dollars)

7. Fair Value Measurements (Continued)

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

	2021	2020
Balance, beginning of year	$ 8,678	$ 6,517
Purchases	1,600	2,000
Transfers out to Level 1	-	(1,721)
Unrealized gain	10,863	1,882
Balance, end of year	$ 21,141	$ 8,678

During the year ended August 31, 2021, SHC made $1,600 investments to a Level 3 security and there was no transfer between Level 3 and Level 1. SHC made $2,000 investments to a Level 3 security and $1,721 was transferred from Level 3 to Level 1 for the year ended August 31, 2020.

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2021 and 2020. For each investment category and respective valuation technique, the range of the significant unobservable input is dependent on the nature and characteristics of the investment and may vary at each balance sheet date.

Investment Categories	Fair Value	Valuation Technique	Significant unobservable inputs	Range Min	Range Max	Weighted Average	Impact to valuation from increase in input
2021							
Other	$ 21,141	Market Comparables	Recent transactions	N/A	N/A	N/A	N/A
2020							
Other	$ 8,678	Market Comparables	Recent transactions	N/A	N/A	N/A	N/A

(in thousands of dollars)

8. Property and Equipment

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

	2021	2020
Land and improvements	$ 77,368	$ 76,495
Buildings and leasehold improvements	3,817,842	3,799,636
Equipment	1,650,865	1,546,599
	5,546,075	5,422,730
Less: Accumulated depreciation	(2,314,043)	(2,069,898)
Construction-in-progress	387,419	293,180
Property and equipment, net	$ 3,619,451	$ 3,646,012

Depreciation and amortization expense totaled $289,263 and $257,725 for the years ending August 31, 2021 and 2020, respectively, and is included in the consolidated statements of operations and changes in net assets.

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. SHC has no capitalized interest expense as of August 31, 2021 since new hospital was capitalized in fiscal year 2020. Capitalized interest expense net of capitalized investment income was $4,710 for the year ended August 31, 2020.

ARO are capitalized and recorded in buildings and leasehold improvements. SHC recorded current period accretion expense of $3,591 and $3,469 in the consolidated statements of operations and changes in net assets of the years ended August 31, 2021 and 2020, respectively. ARO liability of $107,652 and $104,061 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2021 and 2020, 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 2021 / 2020	Outstanding Principal 2021	2020
Fixed Rate Obligations					
Tax-Exempt					
2008 Series A-1 Refunding Revenue Bonds	$ 70,360	2021	3.84%	$ -	$ 675
2008 Series A-2 Refunding Revenue Bonds	104,100	2022	3.81%/3.76%	450	1,450
2008 Series A-3 Refunding Revenue Bonds	84,165	2022	3.81%/3.76%	375	1,175
2010 Series A Refunding Revenue Bonds	149,345	2021	3.84%	-	6,760
2012 Series A Revenue Bonds	340,000	2028-2051	3.98%	-	340,000
2012 Series B Refunding Revenue Bonds	68,320	2022-2023	2.52%/2.48%	14,985	21,795
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	2.85%/2.84%	454,200	454,200
2020 Series A Revenue Bonds	170,120	2050	2.70%	170,120	170,120
2021 Series A Revenue Bonds	157,715	2025	0.42%	157,715	-
Taxable					
2018 Series Bonds	500,000	2049	3.80%	500,000	500,000
2020 Series Bonds	300,000	2030	3.31%	300,000	300,000
2021 Series Bonds	365,100	2051	3.03%	365,100	-
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042-2046	0.07%/0.19%	168,200	168,200
2012 Series D Revenue Bonds	100,000	2021	0.67%	-	100,000
2015 Series B Revenue Bonds	75,000	2024	0.65%	-	75,000
Total principal amounts				2,231,145	2,239,375
Unamortized original issue premiums/discounts, net				102,257	115,728
Unamortized costs of issuance				(14,622)	(14,195)
Current portion of long-term debt				(15,505)	(116,045)
Debt subject to remarketing arrangements				(168,200)	(168,200)
Long-term portion, net of current portion				$ 2,135,075	$ 2,056,663

9. Debt Obligations (Continued)

Debt Issuance Activity

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

Payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a pledge against the revenues of SHC and secured under a master trust indenture between SHC and the master trustee. SHC is currently the only member of the Obligated Group. None of the related entities listed in Note 1 is a member of the obligated group or is otherwise obligated with respect to debt obligations. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem some of its bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of $2,231,145 and $2,239,375 as of August 31, 2021 and 2020, respectively.

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

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

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

In November 2020, SHC extended its revolving line of credit facility until November 2021 and reduced its size to $150,000, of which $50,000 is earmarked for the issuance of stand-by letters of credit. 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, 2021 or August 31, 2020. After August 31, 2021, SHC extended its revolving line of credit facility, as described in Note 17.

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

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

(in thousands of dollars)

9. Debt Obligations (Continued)

Variable Rate Debt

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

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

	Scheduled Maturities	Debt subject to Remarketing	Debt subject to Mandatory Tender	Total
2022	$ 15,505	$ 168,200	$ -	$ 183,705
2023	17,065	-	-	17,065
2024	13,475	-	-	13,475
2025	17,615	-	157,715	175,330
2026	18,480	-	-	18,480
Thereafter	1,823,090	-	-	1,823,090
Total	$ 1,905,230	$ 168,200	$ 157,715	$ 2,231,145

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term debt includes debt subject to mandatory tender coming due in the next fiscal year and payments scheduled to be made in 2022. Debt subject to remarketing includes long-term debt obligations subject to short-term remarketing.

In 1998, SHC advance refunded its 1993 bonds in the amount of $89,520 by issuing the 1998 Series B bonds. In 2017, SHC advance refunded a portion of its 2008 Series A and 2010 Series A and B bonds in the amount of $481,185 by issuing the 2017 Series A bonds. In 2021, SHC advance refunded its 2012 Series A bonds through the issuance of the aforementioned $365,100 Series 2021 taxable bonds. All advance refunded bonds are considered extinguished. Any outstanding 2008 Series A bonds will be redeemed at par by the trustee on November 15, 2021. Any outstanding 2012 Series A bonds will be redeemed at par by the trustee on August 15, 2022.

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

	Amount Advance Refunded	Amount Outstanding as of August 31,	
	Total	2021	2020
1993 Series	$ 89,520	$ -	$ 2,220
2008 Series A-1	65,610	-	65,610
2008 Series A-2	96,625	96,625	96,625
2008 Series A-3	78,090	78,090	78,090
2010 Series A	94,150	-	94,150
2010 Series B	146,710	-	146,710
2012 Series A	340,000	340,000	-
Total	$ 910,705	$ 514,715	$ 483,405

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements

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

SHC currently has nine outstanding interest rate exchange agreements.

The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2021:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
2008 Series A-1	65,750	11/01/2040	3.691%	70% 1-month LIBOR
2008 Series A-2	102,775	11/15/2051	3.999%	67% 1-month LIBOR
2008 Series A-3	84,600	11/15/2051	3.902%	67% 1-month LIBOR
Subtotal LIBOR Swaps	253,125			
2012 Series A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
2012 Series B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
2012 Series C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	$ 574,025			

SHC designates its interest rate swaps that are used to minimize the variability in cash flows of interest-bearing liabilities or forecasted transactions as hedging instruments at the inception of each contract, with the intention of maintaining hedge accounting treatment over the term of the agreement. However, circumstances may arise whereby the representations made at the inception of the agreement become invalid, or the structure of the bonds has changed, resulting in de-designation of the hedge. Over the years, the underlying bonds that were being hedged were refinanced or paid down and as a result, none of the outstanding swap contracts are treated as a hedging instrument for accounting purposes.

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

Description	Fair Value 2021	Fair Value 2020	Balance Sheet Location
Fixed Payment Swaps	$ 285,654	$ 353,292	Swap liabilities

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

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

	Unrealized Gain (Loss)		
Description	**2021**	**2020**	**Statement of Operations Location**
Fixed Payment Swaps	$ 67,638	$ (36,496)	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 $21,154 and $52,254 of cash collateral posted by SHC at August 31, 2021 and 2020, respectively.

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

Bond Interest Expense

Total bond interest expense was $73,309 and $64,545 for the years ended August 31, 2021 and 2020, respectively. Interest capitalized as a cost of construction was $0 and $4,710 for the years ended August 31, 2021 and 2020, respectively.

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

10. Retirement Plans

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

Defined Contribution Retirement Plan
Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees, excluding LPCH employees, totaling $130,865 and $114,075, UHA employer contributions totaling $4,382 and $4,420 and SHC-VC employer contributions totaling $5,981 and $5,695, for the years ended August 31, 2021 and 2020, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

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

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received $135 and $143 in cash for the years ending August 31, 2021 and 2020, respectively, which represented the current year pension expense related to LPCH employees.

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

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2021 and 2020, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $116,620 and $113,212 as of August 31, 2021 and 2020, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $86,856 and $84,772 as of August 31, 2021 and 2020, respectively, which represents the liability for SHC employees excluding LPCH employees.

(in thousands of dollars)

10. Retirement Plans (Continued)

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2021	2020	2021	2020
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 210,752	$ 193,642	$ -	$ -
Actual return on plan assets	13,438	26,157	-	-
Employer contributions	-	1,917	5,632	4,430
Participants contributions	-	-	1,251	1,284
Benefits paid	(10,375)	(10,270)	(6,989)	(5,839)
Medicare subsidies received	-	-	106	125
Expenses paid	(449)	(694)	-	-
Fair value of plan assets at end of year	$ 213,366	$ 210,752	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 219,407	$ 210,690	$ 113,212	$ 101,093
Service cost	1,083	1,546	4,829	3,829
Interest cost	4,978	5,907	2,388	2,704
Participants contributions	-	-	1,251	1,284
Benefits paid	(10,375)	(10,270)	(6,989)	(5,839)
Medicare subsidies received	-	-	106	125
Expenses paid	(449)	(694)	-	-
Plan amendments	-	-	-	5,148
Actuarial (gain) loss	(1,508)	12,228	1,823	4,868
Benefit obligation at end of year	$ 213,136	$ 219,407	$ 116,620	$ 113,212
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ 230	$ (8,655)	$ (116,620)	$ (113,212)
Net benefit asset (liability) recognized	$ 230	$ (8,655)	$ (116,620)	$ (113,212)
Amounts recognized in consolidated balance sheets:				
Noncurrent assets	$ 230	$ -	$ -	$ -
Current liabilities	-	-	(7,231)	(7,266)
Noncurrent liabilities	-	(8,655)	(109,389)	(105,946)
Net benefit asset (liability) recognized	$ 230	$ (8,655)	$ (116,620)	$ (113,212)
Amounts recognized in net assets without donor restrictions:				
Prior service cost	$ -	$ -	$ (17,316)	$ (20,292)
Net (loss)	(50,625)	(58,709)	(2,861)	(1,106)
Net assets without donor restrictions	$ (50,625)	$ (58,709)	$ (20,177)	$ (21,398)

The estimated net loss for the Staff Pension Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $2,027.

The estimated net loss and prior service cost for the Postretirement Medical Benefit Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are $167 and $2,415, respectively.

(in thousands of dollars)

10. Retirement Plans (Continued)

The accumulated benefit obligation for the Staff Pension Plan was $211,330 and $217,551 as of August 31, 2021 and 2020, respectively.

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

	Staff Pension Plan Obligations	
	2021	2020
Service cost:	$ 1,083	$ 1,546
Periodic benefit expense	1,083	1,546
Non-operating:		
Interest cost	4,978	5,907
Expected return on plan assets	(9,270)	(9,692)
Amortization of net loss	2,408	2,277
Non-operating periodic benefit cost	(1,884)	(1,508)
Total net periodic benefit cost	$ (801)	$ 38

	Postretirement Medical Benefits	
	2021	2020
Service cost:	$ 4,829	$ 3,829
Periodic benefit expense	4,829	3,829
Non-operating:		
Interest cost	2,388	2,704
Amortization of prior service cost	2,976	2,560
Amortization of net loss (gain)	68	(251)
Non-operating periodic benefit cost	5,432	5,013
Total net periodic benefit cost	$ 10,261	$ 8,842

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2021	2020	2021	2020
Net (gain) loss arising during period	$ (5,676)	$ (4,237)	$ 1,823	$ 4,868
New prior service cost	-	-	-	5,148
Amortizations				
Prior service cost	-	-	(2,976)	(2,560)
(Loss) gain	(2,408)	(2,277)	(68)	251
Total recognized in net assets without donor restrictions	$ (8,084)	$ (6,514)	$ (1,221)	$ 7,707
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (8,885)	$ (6,476)	$ 9,040	$ 16,549

(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	
	2021	**2020**	**2021**	**2020**
Weighted-average assumptions				
Discount rate	2.46%	2.33%	2.39%	2.18%
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	
	2021	**2020**	**2021**	**2020**
Weighted-average assumptions				
Discount rate	2.33%	2.88%	2.18%	2.77%
Expected return on plan assets	5.00%	5.50%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The evaluation of the historical returns and the future expected returns resulted in the use of 5.0% as the assumption for the expected return on plan assets.

To determine the accumulated postretirement benefit obligation as of August 31, 2021, a 7.35% for Post-65 and a 5.80% for Pre-65 annual rate of increase in the per capita cost of covered health care were assumed for calendar year 2021, declining gradually to 4.0% for both Post-65 and Pre-65, by 2038, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated postretirement benefit obligation by $1,708 and the aggregate service and interest cost by $103. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated postretirement benefit obligation by $1,707 and the aggregate service and interest cost by $109.

Staff Pension Plan Assets

SHC's Staff Pension Plan (''Plan'') weighted-average asset allocations as of the measurement date August 31, 2021 and 2020, respectively, by asset category are as follows:

Asset Category	2021	2020
Debt securities	90%	63%
Equity securities	10%	37%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (Continued)

Staff Pension Plan Assets (continued)

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

	2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 426	$ -	$ -	$ 426
Mutual funds	212,940	-	-	212,940
Total Plan assets at fair value	$ 213,366	$ -	$ -	$ 213,366

	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 673	$ -	$ -	$ 673
Mutual funds	210,079	-	-	210,079
Total Plan assets at fair value	$ 210,752	$ -	$ -	$ 210,752

Staff Pension Plan Investments

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

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

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

(in thousands of dollars)

10. Retirement Plans (Continued)

Staff Pension Plan Investments (continued)

Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of the portfolio is prohibited. Accordingly, Plan assets are strategically allocated across broadly defined financial asset classes. These asset classes are equity (domestic and international), fixed income (of various durations, credit quality, and ability to hedge pension liability), and cash. Except for fixed income investments explicitly guaranteed by the United States government, no single (i.e. non-pooled) investment security shall represent more than 5% of total Plan assets. At the time of purchase, the minimum average credit quality of fixed income investments shall be Standard & Poor's BBB rating or Moody's Baa rating or higher. Cash investments, if any, are used to fund liquidity needs or to facilitate a planned transition into a particular investment within an asset class. The investment policy prohibits the purchasing of securities on margin, executing short sales or purchasing or selling derivative securities for speculation or leverage.

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across Plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the risks mentioned above that increases the exposure of the loss of Plan assets unnecessarily. As of August 31, 2021, SHC did not have concentrations of risk.

Expected Contributions

SHC expects to make no contributions to the Plan for both SHC and LPCH employees during the fiscal year ending August 31, 2022. SHC expects to contribute $5,479 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2022.

Expected Benefit Payments

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

		Postretirement Medical Benefits	
	Pension Benefits	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2022	$ 11,899	$ 7,231	$ 7,486
2023	12,101	7,581	7,700
2024	12,268	7,783	7,897
2025	12,405	7,938	8,046
2026	12,487	8,051	8,152
2027- 2031	61,043	40,846	41,245

(in thousands of dollars)

11. Net Assets Without Donor Restrictions

The changes in consolidated net assets without donor restrictions attributable to the controlling financial interest of SHC and the noncontrolling interests, for the years ended August 31, are as follows:

	Total	Controlling Interest	Noncontrolling Interests
Balance as of September 1, 2019	$ 3,545,875	$ 3,518,964	$ 26,911
Excess of revenues over expenses	190,537	190,929	(392)
Noncontrolling capital distribution	(2,400)	-	(2,400)
Other changes in net assets without donor restrictions	459,893	459,566	327
Balance as of August 31, 2020	4,193,905	4,169,459	24,446
Excess of revenues over expenses	1,579,382	1,572,009	7,373
Noncontrolling capital distributions	(1,870)	-	(1,870)
Other changes in net assets without donor restrictions	(78,259)	(78,388)	129
Balance as of August 31, 2021	$ 5,693,158	$ 5,663,080	$ 30,078

12. Net Assets With Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose:		
Other	$ 49,442	$ 49,534
Pledges receivable	48,860	47,396
Plant facilities	10,353	5,364
Total subject to expenditure for specified purpose	108,655	102,294
Subject to restriction in perpetuity:		
Accumulated appreciation	27,305	16,616
Endowment	15,373	14,633
Total subject to restriction in perpetuity	42,678	31,249
Total net assets with donor restrictions	$ 151,333	$ 133,543

Endowments

In 2009, California adopted a version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). SHC has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SHC classifies as endowments (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

(in thousands of dollars)

12. Net Assets With Donor Restrictions (Continued)

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

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

Changes in SHC's endowment for the years ended August 31, 2021 and 2020 are as follows:

	2021	2020
Endowment net assets, beginning of year	$ 31,249	$ 24,353
Investment return:		
Investment income	770	748
Mark to market adjustments	10,258	1,465
Total investment return	11,028	2,213
Transfer	153	-
Contributions	740	5,202
Expenditures	(492)	(519)
Endowment net assets, end of year	$ 42,678	$ 31,249

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by California UPMIFA, as of August 31, 2021 and 2020 are as follows:

	2021	2020
Clinical services	$ 7,906	$ 6,048
Education	10,854	7,983
Indigent care and other	23,918	17,218
Total endowment classified as net assets with donor restrictions	$ 42,678	$ 31,249

All of SHC's endowment, totaling $42,678 and $31,249 at August 31, 2021 and 2020, respectively, are invested in the MP. The original funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

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

12. Net Assets With Donor Restrictions (Continued)

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

13. Related-Party Transactions

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

Expenses paid to the University and the SoM are reported as operating expenses in the consolidated statements of operations and changes in net assets and are management's best estimates of SHC's arms-length payments of such amounts for its market specific circumstances. To the extent that payments to the University and the SoM exceed an arms-length estimated amount relative to the benefits received by SHC, they are recorded as transfers to the University and the SoM in other changes in net assets.

SHC purchases certain services from the University and the SoM. Payment for these services is based on management's best estimate of its market specific circumstances.

Services provided by the SoM include physician services that benefit SHC, such as emergency room coverage, physicians providing medical direction to SHC, and physicians providing service to the clinical practice, which are covered by the Professional Services Agreement ("PSA"). Such expenses are reflected as purchased services in the consolidated statements of operations and changes in net assets, and total $958,119 and $875,369 for the years ended August 31, 2021 and 2020, 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 $150,869 and $131,791 for the years ended August 31, 2021 and 2020, respectively, and are reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC paid service fees to the University in the amount of $957 and $1,598 for the years ended August 31, 2021 and 2020, respectively. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements and parking garages and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 12 years total $11,275. Annual service fees range from approximately $957 for the year ending August 31, 2022 to $646 for the year ending August 31, 2033.

SHC also received payments for services provided to the University including primarily building maintenance, housekeeping, security, and information technology ("IT"). Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled $85,065 and $77,545 for the years ended August 31, 2021 and 2020, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)
In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $8,838 and $5,443 for the years ended August 31, 2021 and 2020, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and various categories in the consolidated statements of operations and changes in net assets.

During the year ended August 31, 2004, SHC paid $5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short-term portion of $108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2021 and 2020. The remaining amount included in other assets in the consolidated balance sheets is $3,271 and $3,379 as of August 31, 2021 and 2020, respectively.

For the years ended August 31, 2021 and 2020, SHC transferred $100,386 and $98,367, respectively, to the University. These funds are used by the University to support the academic mission of the SoM and its initiatives as well as the general support of the academic community and physical plant. Total transfers of $100,386 and $98,367 for the years ended August 31, 2021 and 2020, respectively, are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

SHC also received equity transfers of $1,353 and $162 during the years ended August 31, 2021 and 2020, respectively, which represented restricted gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC patient care services and the New Stanford Hospital and are included in changes in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

Transactions with Companies of University Board Members
Certain Board Members of the University are executives of companies doing business with SHC. Material transactions are with Goldman Sachs and primarily relate to interest rate swap agreements. As of August 31, 2021 and 2020, SHC had an interest rate swap liability to Goldman Sachs of $71,203 and $86,160, respectively, and there is no posted collateral for the years ended August 31, 2021 and $16,810 for the year ended August 31, 2020, for the same interest rate swap agreement. Additionally, SHC made net swap payments to Goldman Sachs of $4,025 and $3,247 for the years ended August 31, 2021 and 2020, respectively.

Transactions with LPCH
SHC and LPCH share certain departments, including facilities design and construction, materials management, Managed Care contracting, compliance and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $48,826 and $38,157 for the years ended August 31, 2021 and 2020, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $41,296 and $38,207 for the years ended August 31, 2021 and 2020, 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 $44,362 and $41,418 for the years ended August 31, 2021 and 2020, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

During the year ended August 31, 2021, SHC received $99 from LPCH which represented reimbursement for a capital equipment. There was no reimbursement from LPCH for the year ended August 31, 2020.

14. Leases

Leasing Activities-Lessee
SHC's lease portfolio primarily consists of operating and finance leases for real estate, personal property, and equipment under non-cancelable lease agreements expiring at various dates. The amounts in the tables below do not reflect payments for leases that have not yet commenced in the amount of $437.

For the years ended August 31, 2021 and 2020, the components of SHC lease expenses and the classification of such expenses in SHC consolidated statements of operations and changes in net assets are as follows:

Component of Lease Cost	Classification on Consolidated Statements of Operations and Changes in Net Assets	2021	2020
Operating lease costs	Other	$ 85,098	$ 79,979
Short term lease costs	Other	11,864	9,048
Variable lease costs	Other	16,023	17,937
Finance lease expense:			
Amortization of leased assets	Depreciation and amortization	70	70
Interest on lease liabilities	Interest	2	4
Sublease income	Other revenue	(5,323)	(5,732)
Total		$ 107,734	$ 101,306

For the years ended August 31, 2021 and 2020, the supplemental cash flow information related to leases are as follows:

	2021	2020
Operating cash flows from operating leases	$ 86,352	$ 82,180
Operating cash flows from finance leases	2	4
Financing cash flows from finance leases	75	73
Total	$ 86,429	$ 82,257

For the years ended August 31, 2021 and 2020, the right-of-use assets obtained in exchange for new lease obligations are as follows:

	2021	2020
Operating leases	$ 30,858	$ 96,491

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)

For the years ended August 31, 2021 and 2020, the weighted-average lease terms and discount rates for operating and finance leases are as follows:

Weighted-average remaining lease term:	2021	2020
Operating leases	5.73 years	5.77 years
Finance leases	1.17 years	2.17 years

Weighted-average discount rate:	2021	2020
Operating leases	2.02%	2.08%
Finance leases	1.79%	1.79%

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to August 31, 2021:

Year Ending August 31,	Operating	Finance	Total
2022	$ 84,593	$ 77	$ 84,670
2023	78,038	13	78,051
2024	53,571	-	53,571
2025	33,517	-	33,517
2026	24,607	-	24,607
Thereafter	56,847	-	56,847
Total lease payments	331,173	90	331,263
Less Interest	(18,963)	(1)	(18,964)
Total lease liabilities	312,210	89	312,299
Less current lease liabilities	(78,979)	(76)	(79,055)
Total non-current lease liabilities	$ 233,231	$ 13	$ 233,244

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessor
SHC leases space in its medical office buildings to others under non-cancelable operating lease arrangements.

The following table includes the future maturities of lease payments for operating leases that will be received for periods subsequent to August 31, 2021:

Year Ending August 31,	
2022	$ 3,640
2023	2,480
2024	1,706
2025	681
2026	162
Thereafter	8,750
Total	$ 17,419

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 $23,167, 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, 2021.

At August 31, 2021, SHC had contractual obligations of approximately $253,238 primarily related to hospital renovations and other capital projects and approximately $522,986 to support SHC's operations, such as maintenance, food services, valet services and other purchased services.

Effective December 23, 2014, SHC entered into a five-year agreement with a global technology services and outsourcing company, pursuant to which SHC will receive certain information technology services. Under the terms of the agreement, SHC will be charged fixed fees for one-time transition services, ongoing recurring and event-based fees for information technology services, and additional fees plus expenses for project work agreed upon pursuant to work orders agreement. Effective April 1, 2019, SHC extended this contract for an additional five-year term through March 31, 2024, with no limit on renewals. SHC anticipates it will spend approximately $36,000 over the extended term of the agreement.

15. Commitments and Contingencies (Continued)

Effective May 30, 2019, SHC entered into an agreement for the option to purchase land and buildings (“Block E”) from the University. Block E consists of approximately six acres of land and office buildings located in Redwood City, California. The total purchase price was $75,000. Under the terms of the agreement, SHC may exercise options up to four years to purchase Block E and the option price will be four equal installments of $2,250 non-refundable deposits with the first being due three days after the effective date of the agreement, and the last on September 1, 2021. In fiscal year 2019, SHC paid the first $2,250 non-refundable deposit. In fiscal year 2020, SHC exercised its option to purchase Block E and paid the remaining three deposits, plus the final balance due to the University. In accordance with ASC 805-50-30-5, SHC recorded the difference between proceeds transferred of $75,000 and the University’s carrying amount of Block E of $17,400 as an equity transfer to the University in the amount of $57,600. SHC intends to initially develop a 228,000 square foot medical clinic on Block E.

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

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

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 31%. There are currently no expired agreements.

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

15. Commitments and Contingencies (Continued)

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

SHC also has buildings that do not meet the structural seismic safety standards for 2020 compliance, but none of those buildings have any direct inpatient care. SHC received approval from the State of California via Senate Bill 90 to extend the structural compliance deadline for these buildings through the end of 2019, and subsequently to remove those buildings from the roster of hospital structures by January 1, 2020. All required work was completed and SHC is working with the State to formalize the re-classification of the non-compliant structures as non-hospital buildings.

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of a Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. As of August 31, 2021, SHC has capitalized $2,100 million, exclusive of $181 million in capitalized interest, related to this project. SHC's portion of the Renewal Project construction was completed in fall 2019.

Commencing in October 2020, major renovations ("300P Renewal") began on the D Pod patient care unit, which over the next two years, will modernize the four floors for all private patient rooms, enlarged bathrooms, and accommodation for rooming-in of family. In fall 2020, renovation commenced on the former adult emergency department to convert a large portion of it for a dedicated pediatric emergency service. Other major renovations that started in 2021 include an overall modernization of the 300P operating room suite, expansion of the post-anesthesia care to double in size, and significant upgrades to various areas of public spaces.

Over the course of the next six years, additional renovations are planned for the E Pod and F Pod patient care units, and new construction of 58 beds in extension towers. These improvements will enable the complete relocation of inpatient units that remain in the 1959-era portion of the hospital, and fulfill the seismic safety mandate to have all inpatient beds located in compliant structures. As of August 31, 2021, approximately $127 million, which was primarily for design and construction, was recorded to construction in progress. Estimated cost of the 300P Renewal program is approximately $1.2 billion.

15. Commitments and Contingencies (Continued)

Coronavirus Disease ("COVID-19")

In response to the economic impact of COVID-19, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was enacted by Congress and was subsequently signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for businesses and individuals. SHC suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March 2020 through early May 2020 and various times in fiscal year 2021 due to COVID-19. Under certain provisions in the CARES Act, other provider relief funding, and Federal Emergency Management Agency ("FEMA"), SHC recognized benefits totaling $410 million and $135 million in its consolidated statement of operations for the years ended August 31, 2021 and August 31, 2020, respectively. The $410 million benefit is comprised of $393 million of Provider Relief Funds, $8.5 million for employee retention tax credit, $4.5 million of other grants and credits, and $4 million of funding from FEMA, all of which are reported in operating revenue. The $135 million benefit is comprised of $123 million in Provider Relief Funds and $2 million of other grants received, all of which are reported in operating revenue and $10 million for the employee retention tax credit, which is recorded as a reduction of salaries, wages, and benefit expenses.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of August 31, 2021, deferred payments are $56 million, of which $28 million are current and are reported as accrued salaries and benefits and $28 million are non-current and are reported as other long-term liabilities on the accompanying consolidated balance sheet as of that date. As of August 31, 2020, deferred payments of $46.3 million were reported as other long-term liabilities on the accompanying consolidated balance sheet as of that date. As of August 31, 2021, SHC recorded $17 million of additional FEMA funding as deferred revenue on the accompanying consolidated balance sheet as of that date.

SHC recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available at August 31, 2021 and August 31, 2020. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes.

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

There are other government funding and relief sources, in addition to other components of the CARES Act not mentioned, that SHC continues to assess for eligibility. The possible impact of these funding and relief sources are not reflected in the financial performance through August 31, 2021.

(in thousands of dollars)

16. Functional Expenses

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

Expenses, including other components of net periodic benefit costs, are categorized on a functional basis for the years ended August 31 are as follows:

	2021			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,573,917	$ 240,173	$ 1,092	$ 2,815,182
Professional services	16,696	32,800	-	49,496
Supplies	960,520	8,024	-	968,544
Purchased services	1,436,942	63,901	12,795	1,513,638
Depreciation and amortization	267,791	21,472	-	289,263
Interest	76,900	3	-	76,903
Other	348,798	99,559	-	448,357
Expense recoveries from related parties	(49,417)	(1,142)	-	(50,559)
Total	$ 5,632,147	$ 464,790	$ 13,887	$ 6,110,824

	2020			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,314,529	$ 234,959	$ 841	$ 2,550,329
Professional services	13,636	24,827	-	38,463
Supplies	810,600	9,803	-	820,403
Purchased services	1,358,977	86,753	13,229	1,458,959
Depreciation and amortization	236,553	21,172	-	257,725
Interest	68,014	5	-	68,019
Other	354,580	105,903	-	460,483
Expense recoveries from related parties	(80,782)	(24,997)	-	(105,779)
Total	$ 5,076,107	$ 458,425	$ 14,070	$ 5,548,602

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 1, 2021, the date the consolidated financial statements were issued.

In November 2021, SHC extended its revolving line of credit facility until November 2024 and kept its size to $150,000, of which $50,000 is earmarked for the issuance of stand-by letters of credit. Drawdowns from the revolving credit facility bear interest at the Bloomberg Short-Term Bank Yield Index plus a specified spread.

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Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the consolidated financial statements of Stanford Health Care and its subsidiaries as of and for the years then ended August 31, 2021 and 2020 and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

San Francisco, CA
December 1, 2021

Stanford Health Care
Consolidating Balance Sheet
August 31, 2021 and 2020
(in thousands of dollars)

	FY2021											FY 2020
	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total	Aug 31, 2020
Assets												
Current assets:												
Cash and cash equivalents	$ 323,001	$ 35,008	$ 472	$ -	$ 31,216	$ 9,397	$ 7,950	$ -	$ -	$ -	$ 407,044	$ 1,642,912
Assets limited as to use, held by trustee	-	-	-	-	-	-	-	-	-	-	-	92
Short term investments	74,888	-	-	-	-	-	-	-	-	-	74,888	-
Patient accounts receivables, net	696,541	26,777	39,410	-	-	2,220	-	-	-	-	764,948	654,342
Other receivables	106,876	14,524	2,494	1,456	22,053	1,490	9,046	55	-	(1,826)	156,168	165,737
Inventories	103,720	771	7,359	1,571	-	-	-	-	-	-	113,421	125,082
Prepaid expenses and other	106,761	13,537	11,067	368	144	501	887	92	-	(29)	133,328	108,587
Due from related parties	13,597	4,933	69,655	47,803	43	-	-	8	-	(136,039)	-	-
Total current assets	1,425,384	95,550	130,457	51,198	53,456	13,608	17,883	155	-	(137,894)	1,649,797	2,696,752
Investments	1,982,444	-	5,593	-	62,954	-	7,934	-	-	-	2,058,925	689,110
Investments at equity	126,947	-	7,281	-	-	-	-	-	-	-	134,228	116,975
Investments in University managed pools	2,458,322	-	-	-	70,605	-	-	-	-	-	2,528,927	1,610,737
Property and equipment, net	3,399,734	35,247	176,765	4,925	-	2,750	-	30	-	-	3,619,451	3,646,012
Right of use lease assets	249,884	42,751	25,226	11,447	-	914	-	777	-	(38,411)	292,588	341,580
Other assets	111,805	1,638	3,792	-	-	42	128	17	-	(55,915)	61,507	58,533
Investments in related entities	573,638	4,056	-	-	-	-	-	-	-	(577,694)	-	-
Total assets	$10,328,158	$ 179,242	$ 349,114	$ 67,570	$ 187,015	$ 17,314	$ 25,945	$ 979	$ -	$ (809,914)	$10,345,423	$ 9,159,699
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accrued liabilities	$ 547,749	$ 22,281	$ 32,109	$ 4,293	$ 623	$ 56	$ 1,891	$ 51	$ -	$ (32)	$ 609,021	$ 908,249
Accrued salaries and related benefits	333,559	42,530	19,706	(234)	-	-	-	76	-	-	395,637	287,411
Due to related parties	187,675	-	7,517	1,718	678	365	43	2,106	-	(136,039)	64,063	52,128
Third-party payor settlements	56,229	-	(570)	-	-	-	-	-	-	-	55,659	55,112
Current portion of long-term debt	15,505	-	1,823	-	-	-	-	-	-	(1,823)	15,505	116,045
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200	168,200
Operating lease liabilities, current	63,795	13,473	7,633	3,309	-	732	-	254	-	(10,141)	79,055	76,066
Self-insurance reserves and other	42,800	2,333	3,026	831	26,310	-	-	-	-	-	75,300	58,186
Total current liabilities	1,415,512	80,617	71,244	9,917	27,611	1,153	1,934	2,487	-	(148,035)	1,462,440	1,721,397
Self-insurance reserves and other, net of current portion	129,194	-	3,797	72	69,013	-	16,884	-	-	-	218,960	224,858
Swap liabilities	285,654	-	-	-	-	-	-	-	-	-	285,654	353,292
Operating lease liabilities, non-current	202,826	31,578	19,254	8,458	-	185	-	546	-	(29,603)	233,244	287,053
Other long-term liabilities	156,454	2,044	61,658	(15)	-	-	-	-	-	(54,582)	165,559	180,333
Pension liability	-	-	-	-	-	-	-	-	-	-	-	8,655
Long-term debt, net of current portion	2,135,075	-	-	-	-	-	-	-	-	-	2,135,075	2,056,663
Total liabilities	4,324,715	114,239	155,953	18,432	96,624	1,338	18,818	3,033	-	(232,220)	4,500,932	4,832,251
Net assets:												
Net assets without donor restrictions:												
Stanford Health Care	5,857,960	65,003	187,249	49,138	69,774	9,586	4,056	(2,054)	-	(577,632)	5,663,080	4,169,459
Noncontrolling interests	-	-	-	-	20,617	6,390	3,071	-	-	-	30,078	24,446
Total net assets without donor restrictions	5,857,960	65,003	187,249	49,138	90,391	15,976	7,127	(2,054)	-	(577,632)	5,693,158	4,193,905
Net assets with donor restrictions	145,483	-	5,912	-	-	-	-	-	-	(62)	151,333	133,543
Total net assets	6,003,443	65,003	193,161	49,138	90,391	15,976	7,127	(2,054)	-	(577,694)	5,844,491	4,327,448
Total liabilities and net assets	$10,328,158	$ 179,242	$ 349,114	$ 67,570	$ 187,015	$ 17,314	$ 25,945	$ 979	$ -	$ (809,914)	$10,345,423	$ 9,159,699

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Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Years Ended August 31, 2021 and 2020
(in thousands of dollars)

	FY2021											FY 2020
	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total	Aug 31, 2020
Operating revenues and other support:												
Net patient service revenue	$ 5,439,074	$ 296,143	$ 347,184	$ -	$ -	$ 9,761	$ -	$ -	$ -	$ (40,114)	$ 6,052,048	$ 5,140,938
Premium revenue	3,046	75,823	-	-	-	-	-	-	53,198	(13,326)	118,741	116,971
Grants - COVID-19	396,551	3,544	6,170	-	-	-	-	-	-	-	406,265	124,551
FEMA	4,202	-	-	-	-	-	-	-	-	-	4,202	-
Other revenue	142,233	25,257	3,560	77,438	34,971	97	2,487	2,166	-	(108,747)	179,462	174,293
Net assets released from restrictions used for operations	11,353	-	137	-	-	-	-	-	-	-	11,490	10,823
Total operating revenues and other support	5,996,459	400,767	357,051	77,438	34,971	9,858	2,487	2,166	53,198	(162,187)	6,772,208	5,567,576
Operating expenses:												
Salaries and benefits	2,415,370	140,769	207,319	38,005	5,374	2,433	-	3,415	681	(144)	2,813,222	2,548,259
Professional services	39,635	5,648	2,870	21	793	1,102	618	52	120	(1,363)	49,496	38,463
Supplies	871,333	56,878	49,185	15,581	2	97	-	5	5,748	(30,285)	968,544	820,403
Purchased services	1,280,855	252,153	34,975	5,054	403	1,127	-	37	73,924	(134,890)	1,513,638	1,458,959
Depreciation and amortization	259,445	10,175	17,725	1,375	-	525	-	18	-	-	289,263	257,725
Interest	76,766	2	2,062	3	-	-	-	-	-	(1,930)	76,903	68,019
Other	365,015	34,858	37,709	8,163	20,727	1,600	2,417	519	292	(22,943)	448,357	460,483
Expense recoveries from related parties	(50,559)	(26,263)	-	-	-	-	-	(709)	-	26,972	(50,559)	(105,779)
Total operating expenses	5,257,860	474,220	351,845	68,202	27,299	6,884	3,035	3,337	80,765	(164,583)	6,108,864	5,546,532
Income (loss) from operations	738,599	(73,453)	5,206	9,236	7,672	2,974	(548)	(1,171)	(27,567)	2,396	663,344	21,044
Interest and investment income	48,369	145	76	-	1,091	-	70	-	1	(1,930)	47,822	43,973
Earnings on equity method investments	41,327	-	269	-	-	-	-	-	-	-	41,596	19,592
Change in value of University managed pools and other	766,891	(26)	-	-	18,023	-	(50)	-	-	26	784,864	161,720
Swap interest and change in value of swap agreements	46,274	-	-	-	-	-	-	-	-	-	46,274	(53,722)
Other components of net periodic benefit costs	(1,960)	-	-	-	-	-	-	-	-	-	(1,960)	(2,070)
Loss on extinguishment of debt	(2,558)	-	-	-	-	-	-	-	-	-	(2,558)	-
Excess (deficiency) of revenues over expenses	1,636,942	(73,334)	5,551	9,236	26,786	2,974	(528)	(1,171)	(27,566)	492	1,579,382	190,537
Other changes in net assets without donor restrictions:												
Transfers to Stanford University	(100,386)	-	-	-	-	-	-	-	-	-	(100,386)	(98,367)
Transfer from Lucile Packard Children's Hospital	99	-	-	-	-	-	-	-	-	-	99	-
Transfers between SHC and SHC-VC	(16,793)	-	16,793	-	-	-	-	-	-	-	-	-
Change in net unrealized (loss) gain on investments	(2,406)	(1)	-	-	-	-	-	-	-	1	(2,406)	(1,249)
Net assets released from restrictions used for:												
Purchase of property and equipment	927	-	89	-	-	-	-	-	-	-	1,016	3,248
Purchase of property and equipment - New Stanford Hospital	18,224	-	-	-	-	-	-	-	-	-	18,224	555,219
Change in pension and postretirement liability	9,396	-	-	-	-	-	-	-	-	-	9,396	1,042
Noncontrolling capital contribution (distribution), net	-	106,150	-	-	(1,164)	(4,674)	-	-	28,600	(130,782)	(1,870)	(2,400)
(Loss) income from discontinued operations	(72,689)	-	-	-	715	-	-	-	(4,917)	72,689	(4,202)	-
Increase (decrease) in net assets without donor restrictions	1,473,314	32,815	22,433	9,236	26,337	(1,700)	(528)	(1,171)	(3,883)	(57,600)	1,499,253	648,030
Changes in net assets with donor restrictions:												
Transfers from Stanford University	1,353	-	-	-	-	-	-	-	-	-	1,353	162
Contributions and other	28,737	-	6,123	-	-	-	-	-	-	-	34,860	22,084
Investment income	880	-	-	-	-	-	-	-	-	-	880	929
Gains on University managed pools	11,427	-	-	-	-	-	-	-	-	-	11,427	2,885
Net assets released from restrictions used for:												
Operations	(11,353)	-	(137)	-	-	-	-	-	-	-	(11,490)	(10,823)
Purchase of property and equipment	(927)	-	(89)	-	-	-	-	-	-	-	(1,016)	(3,248)
Purchase of property and equipment - New Stanford Hospital	(18,224)	-	-	-	-	-	-	-	-	-	(18,224)	(555,219)
Increase (decrease) in net assets with donor restrictions	11,893	-	5,897	-	-	-	-	-	-	-	17,790	(543,230)
Increase (decrease) in net assets	1,485,207	32,815	28,330	9,236	26,337	(1,700)	(528)	(1,171)	(3,883)	(57,600)	1,517,043	104,800
Net assets, beginning of year	4,518,236	32,188	164,831	39,902	64,054	17,676	7,655	(883)	3,883	(520,094)	4,327,448	4,222,648
Net assets, end of year	$ 6,003,443	$ 65,003	$ 193,161	$ 49,138	$ 90,391	$ 15,976	$ 7,127	$ (2,054)	$ -	$ (577,694)	$ 5,844,491	$ 4,327,448

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