

Stanford Health Care

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

**Stanford Health Care
Index
August 31, 2022 and 2021**

	Page(s)
Report of Independent Auditors	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-46
Report of Independent Auditors on Accompanying Consolidating Information	48
Accompanying Consolidating Information:	
Consolidating Balance Sheets	49-50
Consolidating Statements of Operations and Changes in Net Assets	51-52
Note to Accompanying Consolidating Information	53



Report of Independent Auditors

To the Board of Directors
Stanford Health Care

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the SHC's ability to continue as a going concern for a reasonable period of time.

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

PricewaterhouseCoopers LLP

San Francisco, California
December 6, 2022

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

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

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

Stanford Health Care
Consolidated Statements of Operations and Changes in Net Assets
Years Ended August 31, 2022 and 2021
(in thousands of dollars)

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

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

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

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

1. Organization

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

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

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

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

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

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

1. Organization (Continued)

SEROC is a joint venture between SHC and the Doctors Medical Center of Modesto, Inc. (“DMC”). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. SHC’s interest in SEROC was 60% for the years ended August 31, 2022 and 2021. The remaining interest of 40% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2022 and 2021.

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

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

SHC’s share of net assets in SUMIT, a captive insurance carrier, was 79.9% and 77.5% for the years ended August 31, 2022 and 2021, respectively. LPCH’s share of net assets in SUMIT was 20.1% and 22.5% for the years ended August 31, 2022 and 2021, respectively, and is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

TRA provides risk management services to SHI and serves as attorney-in-fact to PEAC. SHC’s share of net assets in TRA is 82% and the remaining 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2022 and 2021.

PEAC, a captive insurance carrier, provides insurance coverage to SMP, Packard Children’s Health Alliance and other affiliated parties. SHC’s share of net assets in PEAC was 52.6% and 56.9% for the years ended August 31, 2022 and 2021, respectively. The remaining interest of 47.4% and 43.1% for the years ended August 31, 2022 and 2021, respectively, is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

SHC Advantage, a non-profit public benefit corporation, provides comprehensive healthcare coverage options to elderly and disabled eligible Medicare populations and is controlled solely by SHC. On December 6, 2019, an acquisition agreement was entered into with Essence Plan Holdings, LLC (“Essence”). Upon closing, on August 1, 2021, SHC Advantage became a part of Essence Healthcare Inc, a subsidiary of Essence, and SHC retained a 17% ownership interest in Essence. In June 2022, SHC’s interest in Essence was liquidated.

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

1. Organization (Continued)

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation

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

- **Net Assets Without Donor Restrictions** — Net assets without donor restrictions represent those resources of SHC that are not subject to donor-imposed stipulations. The only limits on net assets without donor restrictions are broad limits resulting from the nature of SHC and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements, if any.
- **Net Assets With Donor Restrictions** — Net assets with donor restrictions represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of SHC pursuant to those stipulations or by the passage of time or are subject to donor-imposed restrictions that they be maintained permanently by SHC. Generally, the donors of these assets permit SHC to use all or part of the investment return on these assets.

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

Cash and Cash Equivalents

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

Inventories

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Investments

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

Investments at Equity

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

The mission of StartX, a California nonprofit public benefit corporation, is to accelerate the development of students, faculty and alumni of the University identified by StartX as high potential entrepreneurs through an experiential educational program. StartX Fund is a California limited liability company created to support the continued experiential education of participants in the StartX accelerator program. SHC's interest in StartX Fund was 33% for the years ended August 31, 2022 and 2021.

PET-CT is a California limited liability company which provides radiological services to patients of the community, including patients served by SHC and physicians affiliated with the SoM. SHC and the University each appoint one-half of the members of the governing board of PET-CT and are its only members. SHC's interest in PET-CT was 50% for the years ended August 31, 2022 and 2021.

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

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

Investments in University Managed Pools

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Investments in University Managed Pools (continued)

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

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

Financial Assets and Liquid Resources

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

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

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

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets and Liquid Resources (continued)

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

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

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

Property and Equipment

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

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

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

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

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

Asset Retirement Obligations

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)”. The new guidance was adopted by SHC and its subsidiaries in fiscal year 2020. ASC Topic 842 includes various other practical expedients that can be elected for new leases that are executed after the adoption of the new requirements. SHC elected the practical expedient to not separate lease and non-lease components. SHC also elected to apply the short-term lease recognition exemption which eliminates the requirement to present on the consolidated balance sheets leases with a term of twelve months or less. These two practical expedients were elected for all classes of underlying assets.

Other Assets

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

Contributions Receivable

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

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

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

Interest Rate Swap Agreements

SHC entered into several interest rate swap agreements to reduce the effect of interest rate fluctuation on its variable rate bonds. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. Changes in the fair value of interest rate swaps are included in excess of revenues over expenses. In fiscal year 2022 and 2021, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as an increase (decrease) to swap interest and change in value of swap agreements in the consolidated statements of operations and changes in net assets.

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Excess of Revenues over Expenses (Performance Indicator)

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

Cash Flows from Financing Activities

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

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which SHC expects to be entitled for providing patient care. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Certain net patient service revenues received are subject to retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

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

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

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (continued)

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

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

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

Charity Care and Community Benefits

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

Premium Revenue

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

SHC, SMP, SHC Tri-Valley and SHC Advantage are not-for-profit corporations and tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. ERTS, EBREV, OSV, SBC, SEROC, CareCounsel and SHI are limited liability companies and taxable income flows through to the individual members. SUMIT is currently exempt from all taxes until March 31, 2035. TRA is a limited liability company, but has elected to be taxed as a corporation. PEAC is a taxable corporation. SHC Advantage was acquired by Essence on August 1, 2021 and converted to a for-profit entity. In June 2022, SHC's interest in Essence was liquidated. SHC and its subsidiaries have no uncertain tax positions pertaining to unrelated business income.

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

Self-Insurance Plans

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

- **Professional Liability** — SHC, SHC Tri-Valley and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC Tri-Valley and SBC also maintain professional liability reserves for claims not covered by SUMIT which total \$13,959, \$1,385, and \$92 as of August 31, 2022, respectively. As of August 31, 2021, this coverage was \$11,287, \$970, and \$72 for SHC, SHC Tri-Valley and SBC, respectively. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first \$15,000 per occurrence. The next \$165,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.
- **Postretirement Medical Benefits** — Liabilities for postretirement medical claims for current and retired employees are actuarially determined.
- **Workers' Compensation** — SHC, SHC Tri-Valley and SBC purchase insurance for workers' compensation claims with a \$750 deductible per occurrence. Workers' compensation insurance provides statutory limits for the State of California. An actuarial estimate of retained losses (or losses retained within the deductible) has been used to record a liability.
- **Health and Dental** — Liabilities for health and dental claims for current employees are actuarially determined.

Fair Value of Financial Instruments

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

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

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

Use of Estimates

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

Expense Recoveries from Related Parties

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

Recent Pronouncements – effective in fiscal years 2022 and 2021

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

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

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

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

Defined benefit plan disclosures – In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022. Refer to Note 10 for applicable disclosures.

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2022 and 2021 (continued)

Cloud computing arrangements – In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, to allow capitalization of implementation costs incurred in a cloud computing arrangement in a manner that is consistent with the capitalization of implementation costs incurred to develop or obtain internal-use software. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements.

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

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

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

Recent Pronouncements – effective in future periods

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

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.

Stanford Health Care
Notes to Consolidated Financial Statements
(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:

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

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

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

	<u>2022</u>	<u>2021</u>
Blue Cross	25%	31%
Medicare	11%	13%
Aetna	10%	13%
Blue Shield	9%	12%
United Health	7%	10%

SHC does not believe significant credit risks exist with these payors. Excluding these payors, no one payor represents more than 10% of the SHC's patient receivables or net patient service revenue.

California Hospital Quality Assurance Fee Program

The State of California enacted Senate Bill 239 in October 2013 which established the Hospital Quality Assurance Fee ("HQAF") for January 1, 2014, through December 31, 2022. CMS has approved, and SHC has recognized as revenue on the date of approval, supplemental payments related to the following programs and periods:

- Fee-For-Service ("FFS") programs for January 1, 2014, through December 31, 2021.
- Managed Care program for January 1, 2014, through June 30, 2019.

For the years ended August 31, 2022, and 2021, respectively, SHC recognized \$98,230 and \$46,008 in net patient service revenue for Medi-Cal FFS and Managed Care supplemental payments provided for under the California provider fee programs.

For the years ended August 31, 2022, and 2021, respectively, SHC recognized \$54,850 and \$41,674 in other expense for HQAF paid to the California Department of Health Care Services. Expenses were paid for the same CMS approved programs noted above.

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program (continued)

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

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

4. Charity Care, Uncompensated Costs and Community Benefits

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

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

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

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

The estimated cost of providing charity care is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on SHC's total expenses divided by gross patient service charges.

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

5. Contributions Receivable

Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using discount rates ranging from 0.64% to 3.84% for fiscal year August 31, 2022 and 0.64% to 3.63% for fiscal year August 31, 2021.

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

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

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

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

6. Investments and Investments in University Managed Pools

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

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

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

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

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

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

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

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

Single year depicted for simplicity.

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

7. Fair Value Measurements

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

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

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

These levels are:

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

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

7. Fair Value Measurements (Continued)

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

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

	2022			Total
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	\$ 596,597	\$ -	\$ -	\$ 596,597
Fixed income	672,321	72,009	-	744,330
Public equities	1,061,767	-	-	1,061,767
Other	9,161	-	24,551	33,712
Total assets in the fair value hierarchy	<u>\$ 2,339,846</u>	<u>\$ 72,009</u>	<u>\$ 24,551</u>	2,436,406
Investments measured at NAV practical expedient:				
Investments in University managed pools				<u>2,504,088</u>
Total assets at fair value				<u>\$ 4,940,494</u>
Liabilities				
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 145,906</u>	<u>\$ -</u>	<u>\$ 145,906</u>
	2021			Total
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	\$ 467,047	\$ -	\$ -	\$ 467,047
Mutual funds	766,210	74,888	-	841,098
Public equities	1,211,571	-	-	1,211,571
Other	-	-	21,141	21,141
Total assets in the fair value hierarchy	<u>\$ 2,444,828</u>	<u>\$ 74,888</u>	<u>\$ 21,141</u>	2,540,857
Investments measured at NAV practical expedient:				
Investments in University managed pools				<u>2,528,927</u>
Total assets at fair value				<u>\$ 5,069,784</u>
Liabilities				
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 285,654</u>	<u>\$ -</u>	<u>\$ 285,654</u>

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

7. Fair Value Measurements (Continued)

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

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

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

8. Property and Equipment

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

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

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

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. SHC has no capitalized interest expense as of August 31, 2022 and 2021 since the New Stanford Hospital was capitalized in fiscal year 2020.

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

9. Debt Obligations

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

9. Debt Obligations (Continued)

Debt Issuance Activity

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

Payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a pledge against the revenues of SHC and secured under a master trust indenture between SHC and the master trustee. SHC is currently the only member of the Obligated Group. None of the related entities listed in Note 1 is a member of the obligated group or is otherwise obligated with respect to debt obligations. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem some of its bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of \$2,215,640 and \$2,231,145 as of August 31, 2022 and 2021, respectively.

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

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

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

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

Variable Rate Debt

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

9. Debt Obligations (Continued)

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

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

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term debt includes debt subject to mandatory tender coming due in the fiscal year 2023, if any, and payments scheduled to be made in fiscal year 2023. Debt subject to remarketing includes long-term debt obligations subject to short-term remarketing.

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

Interest Rate Swap Agreements

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

SHC currently has nine outstanding interest rate exchange agreements.

The following is a summary of the outstanding positions under these interest rate swap agreements at August 31, 2022:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	\$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
2008 Series A-1	65,450	11/01/2040	3.691%	70% 1-month LIBOR
2008 Series A-2	102,775	11/15/2051	3.999%	67% 1-month LIBOR
2008 Series A-3	84,600	11/15/2051	3.902%	67% 1-month LIBOR
Subtotal LIBOR Swaps	252,825			
2012 Series A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
2012 Series B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
2012 Series C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	\$ 573,725			

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

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

Description	Fair Value		Balance Sheet Location
	2022	2021	
Fixed Payment Swaps	\$ 145,906	\$ 285,654	Swap liabilities

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

SHC has two swap agreements which require mutual posting of collateral by SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount. There was \$0 and \$21,154 of cash collateral posted by SHC at August 31, 2022 and 2021, respectively.

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

SHC records all swap net settlements in swap interest and change in value of swap agreements on the consolidated statements of operations and changes in net assets.

Bond Interest Expense

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

10. Retirement Plans

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

Defined Contribution Retirement Plan

Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees, excluding LPCH employees, totaling \$152,602 and \$130,865, SMP employer contributions totaling \$6,501 and \$4,382 and SHC Tri-Valley employer contributions totaling \$5,719 and \$5,981, for the years ended August 31, 2022 and 2021, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

Defined Benefit Pension Plan

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

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received \$124 and \$135 in cash for the years ending August 31, 2022 and 2021, respectively, which represented the current year pension expense related to LPCH employees.

Postretirement Medical Benefit Plan

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

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

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

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

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

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

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

	Staff Pension Plan Obligations	
	2022	2021
Service cost	\$ 1,104	\$ 1,083
Periodic benefit expense	1,104	1,083
Non-operating:		
Interest cost	5,097	4,978
Expected return on plan assets	(7,627)	(9,270)
Amortization of net loss	2,027	2,408
Non-operating periodic benefit cost	(503)	(1,884)
Total net periodic benefit cost	<u>\$ 601</u>	<u>\$ (801)</u>
	Postretirement Medical Benefits	
	2022	2021
Service cost	\$ 5,156	\$ 4,829
Periodic benefit expense	5,156	4,829
Non-operating:		
Interest cost	2,700	2,388
Amortization of prior service cost	2,415	2,976
Amortization of net loss	167	68
Non-operating periodic benefit cost	5,282	5,432
Total net periodic benefit cost	<u>\$ 10,438</u>	<u>\$ 10,261</u>

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Actuarial Assumptions

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2022	2021	2022	2021
Weighted-average assumptions				
Discount rate	4.68%	2.46%	4.69%	2.39%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

The discount rate, expected rate of return on plan assets, and the projected covered payroll growth rates used in determining the above net benefit expense are as follows for the years ended August 31:

	Staff Pension Plan Obligations		Postretirement Medical Benefits	
	2022	2021	2022	2021
Weighted-average assumptions				
Discount rate	2.46%	2.33%	2.39%	2.18%
Expected return on plan assets	4.00%	5.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The discount rate is based on Mercer Yield Curve results based on high quality corporate bond yields as of the measurement date using the individual plan's benefit obligation cash flows. The evaluation of the historical returns and the future expected returns resulted in the use of 4.0% as the assumption for the expected return on plan assets.

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

Staff Pension Plan Assets

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

<u>Asset Category</u>	<u>2022</u>	<u>2021</u>
Debt securities	90%	90%
Equity securities	10%	10%
Total	100%	100%

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Staff Pension Plan Assets (continued)

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

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

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

Staff Pension Plan Investments

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

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

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

10. Retirement Plans (Continued)

Staff Pension Plan Investments (continued)

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across Plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the risks mentioned above that increases the exposure of the loss of Plan assets unnecessarily. As of August 31, 2022, SHC did not have concentrations of risk.

Expected Contributions

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

Expected Benefit Payments

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

	Pension Benefits	Postretirement Medical Benefits	
		Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2023	\$ 12,103	\$ 7,567	\$ 7,802
2024	12,296	7,938	8,045
2025	12,449	8,297	8,398
2026	12,543	8,637	8,732
2027	12,528	8,962	9,051
2028- 2032	60,732	50,005	50,345

11. Net Assets Without Donor Restrictions

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

12. Net Assets With Donor Restrictions

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

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

Endowments

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

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

12. Net Assets With Donor Restrictions (Continued)

Endowments (continued)

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

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

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

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

All of SHC's endowment, totaling \$41,281 and \$42,678 at August 31, 2022 and 2021, respectively, are invested in the MP. The original funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Investment Objectives

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

13. Related-Party Transactions

Transactions with the University and SoM

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

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

Services provided by the SoM include physician services that benefit SHC, such as emergency room coverage, physicians providing medical direction to SHC, and physicians providing service to the clinical practice, which are covered by the Professional Services Agreement ("PSA"). Such expenses are reflected as purchased services in the consolidated statements of operations and changes in net assets, and total \$1,064,642 and \$958,119 for the years ended August 31, 2022 and 2021, respectively.

Services provided by the University and other SoM non-physician services include telecommunications, transportation, utilities, and certain administrative services, such as legal and internal audit. Total costs incurred by SHC were \$163,441 and \$150,869 for the years ended August 31, 2022 and 2021, respectively, and are reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC paid service fees to the University in the amount of \$957 for both years ended August 31, 2022 and 2021. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements and parking garages and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 11 years total \$10,317. Annual service fees range from approximately \$957 for the year ending August 31, 2023 to \$646 for the year ending August 31, 2033.

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

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

During the year ended August 31, 2004, SHC paid \$5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short-term portion of \$108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2022 and 2021. The remaining amount included in other assets in the consolidated balance sheets is \$3,163 and \$3,271 as of August 31, 2022 and 2021, respectively.

For the years ended August 31, 2022 and 2021, SHC transferred \$112,361 and \$100,386, respectively, to the University. These funds are used by the University to support the academic mission of the SoM and its initiatives as well as the general support of the academic community and physical plant. Total transfers of \$112,361 and \$100,386 for the years ended August 31, 2022 and 2021, respectively, are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

SHC also received equity transfers of \$3,128 and \$1,353 during the years ended August 31, 2022 and 2021, respectively, which represented restricted gifts originally donated to the University. These gifts were subsequently re-designated mostly for SHC patient care services and the New Stanford Hospital and are included in changes in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

Transactions with Companies of University Board Members

Certain Board Members of the University are executives of companies doing business with SHC. Material transactions are with Goldman Sachs and primarily relate to interest rate swap agreements. As of August 31, 2022 and 2021, SHC had an interest rate swap liability to Goldman Sachs of \$38,582 and \$71,203, respectively, and there is no posted collateral for the years ended August 31, 2022 and August 31, 2021, for the same interest rate swap agreement. Additionally, SHC made net swap payments to Goldman Sachs of \$3,769 and \$4,025 for the years ended August 31, 2022 and 2021, respectively.

Transactions with LPCH

SHC and LPCH share certain departments, including facilities design and construction, materials management, Managed Care contracting, compliance and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled \$41,688 and \$48,826 for the years ended August 31, 2022 and 2021, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled \$44,258 and \$41,296 for the years ended August 31, 2022 and 2021, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

14. Leases

Leasing Activities-Lessee

SHC's lease portfolio primarily consists of operating and finance leases for real estate, personal property, and equipment under non-cancelable lease agreements expiring at various dates.

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

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

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

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

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

	<u>2022</u>	<u>2021</u>
Operating leases	\$ 27,892	\$ 30,858

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)

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

Weighted-average remaining lease term:	<u>2022</u>	<u>2021</u>
Operating leases	5.57 years	5.73 years
Finance leases	0.17 years	1.17 years
Weighted-average discount rate:	<u>2022</u>	<u>2021</u>
Operating leases	2.14%	2.02%
Finance leases	1.79%	1.79%

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

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

Leasing Activities-Lessor

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

The following table includes the future maturities of lease payments for operating leases that will be received for periods subsequent to August 31, 2022:

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

15. Commitments and Contingencies

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

SHC has irrevocable standby letters of credit in the amount of \$26,575, which are required as security for the workers' compensation self-insurance arrangements and \$2,210 to serve as a security deposit for certain construction projects being undertaken by SHC. No amounts have been drawn on these letters of credit as of August 31, 2022.

As of August 31, 2022, SHC had contractual obligations of approximately \$145,014 primarily related to hospital renovations and other capital projects and approximately \$527,265 to support SHC's operations, such as maintenance, food services, valet services and other purchased services.

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

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

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

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

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

15. Commitments and Contingencies (Continued)

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards for structural performance. Facilities classified by the State of California as non-compliant in the event of an earthquake must be retrofitted, replaced or removed from acute care service by applicable deadlines between 2021 and 2030. SHC remains in compliance with all applicable deadlines.

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

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

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of a Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project enabled the rebuilding of Stanford Hospital and the expansion of LPCH to assure adequate capacity, meet State mandated earthquake safety standards, and provide modern, technologically advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. As of August 31, 2022, SHC has capitalized \$2,100 million, exclusive of \$181 million in capitalized interest, related to this project. SHC's portion of the Renewal Project construction was completed in fall 2019.

In October 2020, major renovations ("300P Renewal") began on the D Pod patient care unit, which will modernize the four floors for all private patient rooms, enlarged bathrooms, and accommodation for rooming-in of family. D Pod is scheduled to re-open for inpatient care mid-year 2023. In fall 2020, renovation commenced on the former adult emergency department to convert a large portion of it for a dedicated pediatric emergency service. The Pediatric ED was opened for patient care in May 2022. Other major renovations that started in 2021 include an overall modernization of the 300P operating room suite, expansion of the post-anesthesia care to double in size, and significant upgrades to various areas of public spaces.

Stanford Health Care

Notes to Consolidated Financial Statements

(in thousands of dollars)

15. Commitments and Contingencies (Continued)

Over the course of the next several years, additional renovations are planned for the E Pod and F Pod patient care units, and new construction of 57 beds in extension towers. These improvements will enable the complete relocation of inpatient units that remain in the 1959-era portion of the hospital and fulfill the seismic safety mandate to have all inpatient beds located in compliant structures. As of August 31, 2022, approximately \$261 million, which was primarily for design and construction, was recorded to construction in progress. Estimated cost of the 300P Renewal program is approximately \$1.6 billion.

Coronavirus Disease (“COVID-19”)

In response to the economic impact of COVID-19, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was enacted by Congress and was subsequently signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for businesses and individuals. SHC suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March 2020 through early May 2020 and various times in fiscal year 2021 due to COVID-19. The COVID-19 pandemic continued to cause major disruptions to our nation’s healthcare systems. The emergence of COVID-19 variants and related surges in COVID-19 cases contributed to certain setbacks to the global economy reopening and triggered reinstatement of healthcare restrictions. The resulting financial impacts to SHC came in the form of significant lost revenue and additional expense. SHC has received various forms of federal relief described below to partially offset the aforementioned losses.

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

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

SHC recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services (“HHS”), governing the funding that was publicly available at August 31, 2022 and August 31, 2021. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes.

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

15. Commitments and Contingencies (Continued)

Coronavirus Disease (“COVID-19”) (continued)

There are other government funding and relief sources, in addition to other components of the CARES Act not mentioned, that SHC continues to assess for eligibility. The possible impact of these funding and relief sources are not reflected in the financial performance through August 31, 2022.

16. Functional Expenses

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

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

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

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

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

Stanford Health Care
Notes to Consolidated Financial Statements
(in thousands of dollars)

17. Subsequent Events

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

[THIS PAGE INTENTIONALLY LEFT BLANK]



Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the consolidated financial statements of Stanford Health Care and its subsidiaries as of and for the years ended August 31, 2022 and 2021 and our report thereon appears on pages one and two of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information as of and for the year ended August 31, 2022 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

San Francisco, California
December 6, 2022

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

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

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

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

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

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

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

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

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

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

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

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

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

Accompanying Consolidating Information

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

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