Stanford Health Care

Consolidated Financial Statements
and Accompanying Consolidating Information
August 31, 2020 and 2019

Stanford Health Care
Index
August 31, 2020 and 2019

Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the accompanying consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries, which comprise the consolidated balance sheets as of August 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stanford Health Care and its subsidiaries as of August 31, 2020 and 2019, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 2, 2020

Stanford Health Care
Consolidated Balance Sheets
August 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 1,642,912	$ 505,509
Assets limited as to use, held by trustee	92	11
Short term investments	-	399,639
Patient accounts receivable, net	654,342	685,425
Other receivables	165,737	93,529
Inventories	125,082	69,831
Prepaid expenses and other	108,587	84,524
Total current assets	2,696,752	1,838,468
Investments	689,110	657,554
Investments at equity	116,975	97,963
Investments in University managed pools	1,610,737	1,478,554
Property and equipment, net	3,646,012	3,691,015
Right of use lease assets	341,580	-
Other assets	58,533	78,360
Total assets	$ 9,159,699	$ 7,841,914
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 908,249	$ 557,284
Accrued salaries and related benefits	287,411	275,099
Due to related parties	52,128	103,779
Third-party payor settlements	55,112	29,918
Current portion of long-term debt	116,045	114,235
Debt subject to remarketing arrangements	168,200	228,200
Operating lease liabilities, current	76,066	-
Self-insurance reserves and other	58,186	59,424
Total current liabilities	1,721,397	1,367,939
Self-insurance reserves and other, net of current portion	224,858	174,040
Swap liabilities	353,292	316,796
Operating lease liabilities, non-current	287,053	-
Other long-term liabilities	180,333	150,464
Pension liability	8,655	17,048
Long-term debt, net of current portion	2,056,663	1,592,979
Total liabilities	4,832,251	3,619,266
Net assets:		
Without donor restrictions:		
Stanford Health Care	4,169,459	3,518,964
Noncontrolling interests	24,446	26,911
Total without donor restrictions	4,193,905	3,545,875
With donor restrictions	133,543	676,773
Total net assets	4,327,448	4,222,648
Total liabilities and net assets	$ 9,159,699	$ 7,841,914

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, 2020 and 2019
(in thousands of dollars)

	2020	2019
Operating revenues and other support:		
Net patient service revenue	$ 5,140,938	$ 5,113,052
Premium revenue	116,971	106,130
Grants - COVID-19	124,551	-
Other revenue	174,293	157,757
Net assets released from restrictions used for operations	10,823	13,063
Total operating revenues and other support	5,567,576	5,390,002
Operating expenses:		
Salaries and benefits	2,548,259	2,302,399
Professional services	38,463	41,300
Supplies	820,403	727,136
Purchased services	1,458,959	1,350,708
Depreciation and amortization	257,725	190,283
Interest	68,019	42,431
Other	460,483	483,258
Expense recoveries from related parties	(105,779)	(130,800)
Total operating expenses	5,546,532	5,006,715
Income from operations	21,044	383,287
Interest and investment income	43,973	42,904
Earnings on equity method investments	19,592	8,315
Change in value of University managed pools and other	161,720	76,748
Swap interest and change in value of swap agreements	(53,722)	(146,794)
Other components of net periodic benefit costs	(2,070)	-
Excess of revenues over expenses	190,537	364,460
Other changes in net assets without donor restrictions:		
Transfers to Stanford University	(98,367)	(120,090)
Change in net unrealized (loss) gain on investments	(1,249)	22,825
Net assets released from restrictions used for:		
Purchase of property and equipment	3,248	977
Purchase of property and equipment - New Stanford Hospital	555,219	-
Change in pension and postretirement liability	1,042	(26,422)
Noncontrolling capital distribution	(2,400)	-
Increase in net assets without donor restrictions	648,030	241,750
Changes in net assets with donor restrictions:		
Transfers from (to) Stanford University	162	(316)
Contributions and other	22,084	31,079
Investment income	929	815
Gains on University managed pools	2,885	2,176
Net assets released from restrictions used for:		
Operations	(10,823)	(13,063)
Purchase of property and equipment	(3,248)	(977)
Purchase of property and equipment - New Stanford Hospital	(555,219)	-
(Decrease) increase in net assets with donor restrictions	(543,230)	19,714
Increase in net assets	104,800	261,464
Net assets, beginning of year	4,222,648	3,961,184
Net assets, end of year	$ 4,327,448	$ 4,222,648

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2020 and 2019
(in thousands of dollars)

	2020	2019
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 107,265	$ 253,280
Change in noncontrolling interests	(2,465)	8,184
Total change in net assets	104,800	261,464
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	254,619	188,878
Change in fair value of interest rate swaps	36,496	134,269
Increase in value of University managed pools	(125,020)	(76,748)
Unrealized gains on investments	(36,916)	(23,391)
Excess of income on equity method investees over distributions received	(20,784)	(6,241)
Contributions received for long lived assets or endowment	(23,055)	(45,967)
Net equity transfers to/from related parties	98,205	120,406
Premiums received from bond issuance	19,885	-
Changes in operating assets and liabilities:		
Patient accounts receivable	31,083	(62,348)
Due to related parties	(8,288)	(8,388)
Other receivables, inventory, other assets, prepaid expenses and other	(145,207)	(48,251)
Accounts payable, accrued liabilities and pension liabilities	509,198	107,407
Accrued salaries and related benefits	12,312	65,609
Third-party payor settlements	25,194	(4,556)
Self-insurance reserves	49,580	38,690
Cash provided by operating activities	782,102	640,833
Cash flows from investing activities:		
Purchases of investments	(50,217)	(580,481)
Sales of investments	464,921	446,579
Purchases of investments at equity	-	(11,244)
Purchases of investments in University managed pools	(6,774)	(2,850)
Sales of investments in University managed pools	1,076	2,586
Swap settlement payments, net	(16,825)	(12,595)
Purchases of property and equipment	(310,641)	(553,642)
Cash provided by (used in) investing activities	81,540	(711,647)
Cash flows from financing activities:		
Proceeds from issuance of debt	470,120	-
Costs of issuance of debt	(4,006)	(98)
Payment of long-term debt and finance lease obligations	(74,134)	(14,610)
Contributions received for long lived assets or endowment	24,015	45,952
Net equity transfers to/from related parties	(142,153)	(107,166)
Cash provided by (used in) financing activities	273,842	(75,922)
Net increase (decrease) in cash and cash equivalents	1,137,484	(146,736)
Cash and cash equivalents, beginning of year	505,520	652,256
Cash and cash equivalents, end of year	$ 1,643,004	$ 505,520
Supplemental data:		
Cash and cash equivalents as shown on the consolidated balance sheets	$ 1,642,912	$ 505,509
Restricted cash included in assets limited as to use, held by trustee	92	11
Total cash and cash equivalents as shown on the statement of cash flows	$ 1,643,004	$ 505,520
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 69,105	$ 43,602
Supplemental disclosures of non cash information:		
(Decrease) increase in payables for property and equipment	$ (100,190)	$ 48,461
Equity transfers to related parties, net	(3,012)	(47,096)

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

1. Organization

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

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

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

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

SHC-VC, a leading 242 bed community hospital system located in the East Bay's Tri-Valley region of Pleasanton, Livermore, and Dublin offers both inpatient and outpatient services. SHC is the sole corporate member.

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

SEROC is a joint venture between SHC and the Doctors Medical Center of Modesto, Inc. ("DMC"). SEROC operates an outpatient clinic that provides radiation oncology services to patients in Turlock, California and surrounding communities. SHC's interest in SEROC was 60% for the years ended August 31, 2020 and 2019. 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, 2020 and 2019.

1. Organization (Continued)

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

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

SHC's share of net assets in SUMIT, a captive insurance carrier, was 77.8% and 70.1% for the years ended August 31, 2020 and 2019, respectively. LPCH's share of net assets in SUMIT was 22.2% and 29.9% for the years ended August 31, 2020 and 2019, respectively, and is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

TRA provides risk management services to SHI and serves as attorney-in-fact to PEAC. TRA sold the assets of PHT Services, Ltd., a South Carolina risk management services wholly owned corporation, on August 31, 2020 to Health Care Risk Services South Carolina Ltd. SHC's share of net assets in TRA is 82% and the remaining 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2020 and 2019.

PEAC, a captive insurance carrier, provides insurance coverage to UHA, Packard Children's Health Alliance and other affiliated parties. SHC's share of net assets in PEAC was 59.4% and 63.3% for the years ended August 31, 2020 and 2019, respectively. The remaining interest of 40.6 % and 36.7% for the years ended August 31, 2020 and 2019, 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 ("Buyer") and is targeted to close on January 1, 2021, at which time SHC Advantage will convert to a for-profit organization and the Buyer will own 83% of the Company and SHC will own 17%. Effective September 1, 2020, Lumeris Healthcare Outcomes, LLC, an affiliate of the buyer, will perform health plan operations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents

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

Assets Limited as to Use, Held by Trustee

Assets limited as to use include various accounts held by a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. Assets limited as to use consist of cash. Amounts required to fund current liabilities have been classified as current assets in the consolidated balance sheet at August 31, 2020. There were $92 and $11 assets limited as to use in the consolidated balance sheet at August 31, 2020 and 2019, respectively.

2. Summary of Significant Accounting Policies (Continued)

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

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

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

The mission of StartX, a California nonprofit public benefit corporation, is to accelerate the development of students, faculty and alumni of the University identified by StartX as high potential entrepreneurs through an experiential educational program. StartX Fund is a California limited liability company created to support the continued experiential education of participants in the StartX accelerator program. SHC's interest in StartX Fund was 33% for the years ended August 31, 2020 and 2019.

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, 2020 and 2019.

PPA II is a California limited liability company which owns and operates a medical office building in Pleasanton. SHC-VC's interest in PPA II was 39% for the years ended August 31, 2020 and 2019.

AIMS is a Delaware limited liability company which provides research and development of applications to reduce suicide and self-harm. TRA and Mersey Care NHS Foundation Trust, a United Kingdom based company, each have a 50% interest in AIMS for the year ended August 31, 2020 and 2019.

2. Summary of Significant Accounting Policies (Continued)

Investments in University Managed Pools

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

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

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

Financial Assets and Liquid Resources

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

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

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

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

(in thousands of dollars)

2. Summary of Significant Accounting Policies (Continued)

Financial Assets and Liquid Resources (continued)

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

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

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 1,642,912	$ 505,509
Accounts receivable, net	654,342	685,425
Short-term investments	-	399,639
Investments in mutual funds	556,960	504,872
10% of long-term investments in Merged Pool	152,300	144,974
Financial assets available to meet cash needs for general expenditure within one year	$ 3,006,514	$ 2,240,419
Liquidity resources:		
Revolving line of credit capacity	200,000	200,000
Total financial assets and liquidity resources available within one year	$ 3,206,514	$ 2,440,419

After August 31, 2020, SHC extended its revolving line of credit facility and reduced its amount, as described further in Note 17.

Property and Equipment

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

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

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Contributions Receivable

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

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

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

Interest Rate Swap Agreements

SHC entered into several interest rate swap agreements to reduce the effect of interest rate fluctuation on its variable rate bonds. All swaps are recognized on the consolidated balance sheets at their fair value in accordance with current accounting guidance. Changes in the fair value of interest rate swaps are included in excess of revenues over expenses. In fiscal year 2020 and 2019, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as a decrease to swap interest and change in value of swap agreements in the consolidated statements of operations and changes in net assets.

Excess of Revenues over Expenses (Performance Indicator)

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

Net Patient Service Revenue

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

2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Charity Care and Community Benefits

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

Premium Revenue

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

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

Income Taxes

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

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. 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. The potential implications of the Act are complex and interpretative guidance is still developing. SHC continues to evaluate the impact of the Act on current and future tax positions.

Self-Insurance Plans

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

2. Summary of Significant Accounting Policies (Continued)

Self-Insurance Plans (continued)

- ***Professional Liability*** — SHC, SHC-VC and SBC are self-insured through SUMIT for medical malpractice and general liability losses under claims-made coverage. SHC, SHC-VC and SBC also maintain professional liability reserves for claims not covered by SUMIT which total $10,513, $831 and $67 as of August 31, 2020, respectively. As of August 31, 2019, this coverage was $8,080, $933 and $61 for SHC, SHC-VC and SBC, respectively. Since September 1, 2005, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence. The next $165,000 is transferred to various reinsurance companies. Prior to September 1, 2005, SHC maintained various coverage limits.

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

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

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

Fair Value of Financial Instruments

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

Concentration of Credit Risk

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

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

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.

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2020 and 2019
The FASB ASC is the sole source of authoritative non-governmental U.S. generally accepted accounting principles ("GAAP").

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

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

Revenue recognition - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB has issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. SHC adopted ASU 2014-09 on September 1, 2018 using the modified retrospective method of transition. SHC performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, SHC performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts are presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets and treated as a price concession that reduces the transaction price, which is reported as net patient service revenue.

The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total without donor restrictions, excess of revenues over expenses or total net assets.

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

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in fiscal years 2020 and 2019 (continued)
Not-for-profit (“NFP”) reporting - In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which modifies current NFP reporting requirements. This update changes the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The most significant change is the updated presentation of net assets in two classes: net assets without donor restrictions and net assets with donor restrictions. SHC adopted on a retrospective basis during the fiscal year ending August 31, 2019 and the adoption did not have a material impact on the consolidated financial statements.

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

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

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

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

Recent Pronouncements – effective in future periods
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. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

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

2. Summary of Significant Accounting Policies (Continued)

Recent Pronouncements – effective in future periods (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. SHC is currently evaluating the impact that this guidance will have on its consolidated financial statements.

3. Net Patient Service Revenue

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

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

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

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

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

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

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

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

(in thousands of dollars)

3. Net Patient Service Revenue (Continued)

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.

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

	2020	2019
Medicare	$ 921,709	$ 937,369
Medi-Cal	108,751	150,184
Managed Care - Discounted Fee For Services	3,957,801	3,871,597
Self pay and other	114,470	115,527
Related party	38,207	38,375
Net patient service revenue	$ 5,140,938	$ 5,113,052

SHC recognized net patient service revenue adjustments of $10,750 and $20,336 as a result of prior years unfavorable and favorable developments related to reimbursement for the years ended August 31, 2020 and 2019, respectively. SHC did not recognize revenues as a result of prior years appeals settled during the year ended August 31, 2020 and 2019.

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:

	2020	2019
Blue Cross	28%	26%
Medicare	16%	13%
Aetna	12%	11%
Blue Shield	11%	10%
United Health	8%	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. The adoption of ASU 2014-09 has no impact on the SHC's patient receivables as it was historically recorded net of allowance for uncollectible accounts and contractual adjustments on the consolidated balance sheets.

3. Net Patient Service Revenue (Continued)

California Hospital Quality Assurance Fee Program

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

- Fee-For-Service ("FFS") programs for January 1, 2014 through December 31, 2021.
- Managed Care programs for the expansion population for January 1, 2014 through December 31, 2016.
- Managed Care programs for the non-expansion population for January 1, 2014 through December 31, 2016.
- Managed Care programs for the pass-through population for January 1, 2017 through June 30, 2017.

For the years ended August 31, 2020 and 2019, respectively, SHC recognized $66,459 and $93,880 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, 2020 and 2019, respectively, SHC recognized $54,914 and $39,544 in other expense for HQAF paid to the California Department of Health Care Services. Expenses were paid for the same CMS approved programs noted above.

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

SHC recorded $53,510 and $31,602 in deferred revenue as of August 31, 2020 and 2019, respectively, pending CMS approval. SHC also recorded $30,402 and $22,214 as prepaid expense for the years ended August 31, 2020 and 2019 respectively, pending CMS approval. Deferred revenue and prepaid expenses associated with unapproved HQAF will be recognized as revenue and expense respectively, upon CMS approval.

(in thousands of dollars)

4. Charity Care, Uncompensated Costs and Community Benefits

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

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

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

	2020	2019
Charity care at established rates	$ 105,591	$ 112,665
Estimated cost of charity care, net	$ 23,432	$ 23,978

The estimated cost of providing charity care is based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on SHC's total expenses divided by gross patient service charges. SHC received $825 and $410 during the years ended August 31, 2020 and 2019, respectively, from contributions that were restricted for the care of indigent patients.

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

	2020	2019
Charity care	$ 23,432	$ 23,978
Medi-Cal	382,437	277,994
Medicare	988,809	854,133
Total	$ 1,394,678	$ 1,156,105

5. Contributions Receivable

Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using a discount rate of 0.64% for new receivables recorded in fiscal year 2020 and 1.88% for receivables recorded in fiscal year 2019.

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

	2020	2019
In one year or less	$ 29,932	$ 29,691
Between one year and five years	18,116	33,348
More than five years	4,687	6,021
	52,735	69,060
Less: discount/allowance	(5,339)	(6,664)
Total contributions receivable, net	47,396	62,396
Less: current portion	(26,944)	(27,242)
Contributions receivable, net of current portion	$ 20,452	$ 35,154

(in thousands of dollars)

5. Contributions Receivable (Continued)

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

	2020	2019
Plant replacement and expansion	$ 51,765	$ 67,259
Other patient and clinical services	970	1,801
Total	$ 52,735	$ 69,060

There were no conditional pledges at August 31, 2020 and 2019.

6. Investments and Investments in University Managed Pools

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

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Short term investments:				
Mutual funds	$ -	$ -	$ 397,058	$ 399,639
Investments:				
Cash and cash equivalents	$ 55,522	$ 55,522	$ 62,205	$ 62,205
Mutual funds	562,784	624,910	563,887	585,071
Public equity	-	-	488	3,761
Other	2,208	8,678	385	6,517
Total	$ 620,514	$ 689,110	$ 626,965	$ 657,554

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

	Fair Value	
	2020	2019
Investments in University managed pools:		
Merged Pool	$ 1,604,095	$ 1,472,256
Expendable Funds Pool	6,642	6,298
Total	$ 1,610,737	$ 1,478,554

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.

(in thousands of dollars)

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

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

	Allocation	
	2020	**2019**
Cash and cash equivalents	5%	1%
Fixed income	7%	6%
Public equities	23%	26%
Real estate	8%	8%
Natural resources	4%	6%
Absolute return	19%	19%
Private equities	34%	34%
Total	100%	100%

7. Fair Value Measurements

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

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

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

These levels are:

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

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

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

(in thousands of dollars)

7. Fair Value Measurements (Continued)

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

	2020			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 1,642,912	$ -	$ -	$ 1,642,912
Assets limited as to use, held by trustee:				
Cash and cash equivalents	92	-	-	92
Investments:				
Cash and cash equivalents	55,522	-	-	55,522
Mutual funds	624,910	-	-	624,910
Other	-	-	8,678	8,678
Investments	680,432	-	8,678	689,110
Total assets in the fair value hierarchy	$ 2,323,436	$ -	$ 8,678	2,332,114
Investments measured at NAV practical expedient:				
Investments in University managed pools				1,610,737
Total assets at fair value				$ 3,942,851
Liabilities				
Interest rate swap instruments	$ -	$ 353,292	$ -	$ 353,292

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

(in thousands of dollars)

7. Fair Value Measurements (Continued)

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

	2020	2019
Balance, beginning of year	$ 6,517	$ 896
Purchases	2,000	-
Transfers out to Level 1	(1,721)	(511)
Unrealized gain	1,882	6,132
Balance, end of year	$ 8,678	$ 6,517

During the year ended August 31, 2020, SHC purchased $2,000 investments toward a Level 3 security and no purchase was made for the year ended August 31, 2019. Transfers in and out of Level 3 include situations where observable inputs have changed and all transfer amounts are based on the fair value at the end of the fiscal year. Due to quoted market price data becoming available for the security, $1,721 and $511 were transferred from Level 3 to Level 1 for the years ended August 31, 2020 and 2019, respectively.

8. Property and Equipment

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

	2020	2019
Land and improvements	$ 76,495	$ 68,844
Buildings and leasehold improvements	3,799,636	1,773,365
Equipment	1,546,599	1,246,431
	5,422,730	3,088,640
Less: Accumulated depreciation	(2,069,898)	(1,824,105)
Construction-in-progress	293,180	2,426,480
Property and equipment, net	$ 3,646,012	$ 3,691,015

Depreciation and amortization expense totaled $257,725 and $190,283 for the years ending August 31, 2020 and 2019, respectively, and is included in the consolidated statements of operations and changes in net assets.

SHC has immaterial finance leases amounts as of August 31, 2020 and 2019.

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. Capitalized interest expense net of capitalized investment income was $4,710 and $28,861 for the years ended August 31, 2020 and 2019, respectively.

ARO are capitalized and recorded in buildings and leasehold improvements. SHC recorded current period accretion expense of $3,469 and $3,353 in the consolidated statements of operations and changes in net assets of the years ended August 31, 2020 and 2019, respectively. ARO liability of $104,061 and $100,592 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2020 and 2019, respectively.

(in thousands of dollars)

9. Debt Obligations

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

	Face Value	Fiscal Years of Maturity	Effective Interest Rates 2020 / 2019	Outstanding Principal 2020	Outstanding Principal 2019
Fixed Rate Obligations					
Tax-Exempt					
2008 Series A-1 Refunding Revenue Bonds	$ 70,360	2021	3.84%/3.83%	$ 675	$ 900
2008 Series A-2 Refunding Revenue Bonds	104,100	2021-2022	3.76%/3.70%	1,450	1,775
2008 Series A-3 Refunding Revenue Bonds	84,165	2021-2022	3.76%/3.69%	1,175	1,450
2010 Series A Refunding Revenue Bonds	149,345	2021	3.84%/3.82%	6,760	13,195
2012 Series A Revenue Bonds	340,000	2028-2051	3.98%	340,000	340,000
2012 Series B Refunding Revenue Bonds	68,320	2021-2023	2.48%/2.42%	21,795	28,770
2015 Series A Revenue Bonds	100,000	2052-2054	4.10%	100,000	100,000
2017 Series A Refunding Revenue Bonds	454,200	2022-2041	2.84%/2.82%	454,200	454,200
2020 Series A Revenue Bonds	170,120	2050	2.70%	170,120	-
Taxable					
2018 Series Bonds	500,000	2049	3.80%	500,000	500,000
2020 Series Bonds	300,000	2030	3.31%	300,000	-
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042-2046	0.19%/1.16%	168,200	168,200
2012 Series C Revenue Bonds	60,000	2020	1.60%	-	60,000
2012 Series D Revenue Bonds	100,000	2021	0.67%/1.89%	100,000	100,000
2015 Series B Revenue Bonds	75,000	2024	0.65%/2.04%	75,000	75,000
Total principal amounts				2,239,375	1,843,490
Unamortized original issue premiums/discounts, net				115,728	103,390
Unamortized costs of issuance				(14,195)	(11,466)
Current portion of long-term debt				(116,045)	(114,235)
Debt subject to remarketing arrangements				(168,200)	(228,200)
Long-term portion, net of current portion				$ 2,056,663	$ 1,592,979

9. Debt Obligations (Continued)

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

Payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a pledge against the revenues of SHC secured under a master trust indenture between SHC and the master trustee. The master trust indenture includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and maintenance of certain financial ratios. SHC may redeem some of its bonds, in whole or in part, prior to the stated maturities. Total debt outstanding under the master trust indenture is in the aggregate principal amounts of $2,239,375 and $1,843,490 as of August 31, 2020 and 2019, respectively.

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

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

In May 2020, at SHC's request and subsequent to the end of the original index floating rate period, US Bank extended its ownership of the $100,000 2012 Series D bonds at a new index floating rate period.

In May 2020, SHC extended its $200,000 revolving line of credit facility until May 2021. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable London Interbank Offered Rate ("LIBOR") plus a specified spread. No amounts were outstanding as of August 31, 2020 or August 31, 2019. After August 31, 2020, SHC extended its revolving line of credit facility and reduced its amount, as described further in Note 17.

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

The 2012 Series D and 2015 Series B bonds are in a monthly floating index mode and are directly placed with U.S. Bank. The 2012 Series D and 2015 Series B bonds are not subject to remarketing or tender until May 13, 2021 and June 28, 2024, respectively. The 2012 Series D bonds are classified as current liabilities while the 2015 Series B bonds are classified as long-term liabilities. SHC presently anticipates the 2012 Series D bonds will be remarketed to new holders in one of the interest rate modes available under the related bond indenture. In the event the 2012 Series D bonds are not remarketed on their mandatory tender date, then, as long as no default or event of default has occurred and is continuing, the 2012 Series D bonds will be repaid.

(in thousands of dollars)

9. Debt Obligations (Continued)

Variable Rate Debt (continued)
Scheduled principal payments on long-term debt are summarized below:

	Scheduled Maturities	Debt subject to Remarketing	Debt subject to Mandatory Tender (2012D and 2015B)	Total
2021	$ 16,045	$ 168,200	$ 100,000	$ 284,245
2022	15,505	-	-	15,505
2023	17,065	-	-	17,065
2024	13,475	-	75,000	88,475
2025	17,615	-	-	17,615
Thereafter	1,816,470	-	-	1,816,470
Total	$ 1,896,175	$ 168,200	$ 175,000	$ 2,239,375

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term debt includes debt subject to mandatory tender coming due in the next fiscal year and payments scheduled to be made in 2021. Debt subject to remarketing includes long-term debt obligations subject to short-term remarketing.

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

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

	Amount Advance Refunded	Amount Outstanding as of August 31,	
	Total	2020	2019
1993 Series	$ 89,520	$ 2,220	$ 4,330
2008 Series A-1	65,610	65,610	65,610
2008 Series A-2	96,625	96,625	96,625
2008 Series A-3	78,090	78,090	78,090
2010 Series A	94,150	94,150	94,150
2010 Series B	146,710	146,710	146,710
Total	$ 570,705	$ 483,405	$ 485,515

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

(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, 2020:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	$ 48,800	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series C	48,700	11/15/2036	3.365%	70% 1-month LIBOR
2003 Series D	52,500	11/15/2036	3.365%	70% 1-month LIBOR
Subtotal LIBOR Swaps	150,000			
2008 Series A-1	66,425	11/01/2040	3.691%	70% 1-month LIBOR
2008 Series A-2	102,775	11/15/2051	3.999%	67% 1-month LIBOR
2008 Series A-3	84,600	11/15/2051	3.902%	67% 1-month LIBOR
Subtotal LIBOR Swaps	253,800			
2012 Series A	68,350	11/15/2045	4.081%	67% 1-month LIBOR
2012 Series B	68,375	11/15/2045	4.077%	67% 1-month LIBOR
2012 Series C	34,175	11/15/2045	4.008%	67% 1-month LIBOR
Subtotal Forward Swaps	170,900			
Total	$ 574,700			

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

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

Description	Fair Value 2020	Fair Value 2019	Balance Sheet Location
Fixed Payment Swaps	$ 353,292	$ 316,796	Swap liabilities

(in thousands of dollars)

9. Debt Obligations (Continued)

Interest Rate Swap Agreements (continued)

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

	Unrealized Loss		
Description	**2020**	**2019**	**Statement of Operations Location**
Fixed Payment Swaps	$ 36,496	$ 134,269	Swap interest and change in value of swap agreements

SHC has two swap agreements which require mutual posting of collateral by SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount. There was $52,254 and $31,634 of cash collateral posted by SHC at August 31, 2020 and 2019, respectively.

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

Bond Interest Expense

Total bond interest expense was $64,545 and $39,060 for the years ended August 31, 2020 and 2019, respectively. Interest capitalized as a cost of construction was $4,710 and $28,861 for the years ended August 31, 2020 and 2019, respectively.

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

10. Retirement Plans

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

Defined Contribution Retirement Plan
Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation. Employer contributions to this plan for SHC employees, excluding LPCH employees, totaling $114,075 and $101,847, UHA employer contributions totaling $4,420 and $4,364 and SHC-VC employer contributions totaling $5,695 and $5,872, for the years ended August 31, 2020 and 2019, respectively, are included in salaries and benefits expense in the consolidated statements of operations and changes in net assets.

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

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received $143 and $128 in cash for the years ending August 31, 2020 and 2019, respectively, which represented the current year pension expense related to LPCH employees.

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

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2020 and 2019, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $113,212 and $101,093 as of August 31, 2020 and 2019, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $84,772 and $76,491 as of August 31, 2020 and 2019, respectively, which represents the liability for SHC employees excluding LPCH employees.

(in thousands of dollars)

10. Retirement Plans (Continued)

Postretirement Medical Benefit Plan (continued)

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

	Staff Pension Plan Obligations		Postretirement Medical Benefits Net of Medicare Part D Subsidy	
	2020	2019	2020	2019
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 193,642	$ 180,930	$ -	$ -
Actual return on plan assets	26,157	23,736	-	-
Employer contributions	1,917	-	4,430	5,033
Participants contributions	-	-	1,284	1,324
Benefits paid	(10,270)	(9,681)	(5,839)	(6,357)
Medicare subsidies received	-	-	125	-
Expenses paid	(694)	(1,046)	-	-
Adjustments	-	(297)	-	-
Fair value of plan assets at end of year	$ 210,752	$ 193,642	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 210,690	$ 187,580	$ 101,093	$ 77,544
Service cost	1,546	1,197	3,829	2,235
Interest cost	5,907	7,416	2,704	2,928
Participants contributions	-	-	1,284	1,324
Benefits paid	(10,270)	(9,681)	(5,839)	(6,357)
Medicare subsidies received	-	-	125	-
Expenses paid	(694)	(1,046)	-	-
Plan amendments	-	-	5,148	13,767
Actuarial loss	12,228	25,224	4,868	9,652
Benefit obligation at end of year	$ 219,407	$ 210,690	$ 113,212	$ 101,093
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (8,655)	$ (17,048)	$ (113,212)	$ (101,093)
Net benefit liability recognized	$ (8,655)	$ (17,048)	$ (113,212)	$ (101,093)
Amounts recognized in consolidated balance sheets:				
Current liabilities	$ -	$ -	$ (7,266)	$ (6,965)
Noncurrent liabilities	(8,655)	(17,048)	(105,946)	(94,128)
Net benefit liability recognized	$ (8,655)	$ (17,048)	$ (113,212)	$ (101,093)
Amounts recognized in net assets without donor restrictions:				
Prior service cost	$ -	$ -	$ (20,292)	$ (17,704)
Net (loss) gain	(58,709)	(65,223)	(1,106)	4,013
Net assets without donor restrictions	$ (58,709)	$ (65,223)	$ (21,398)	$ (13,691)

The estimated net loss for the Staff Pension Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $2,408.

The estimated net loss and prior service cost for the Postretirement Medical Benefit Plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are $68 and $2,976, respectively.

(in thousands of dollars)

10. Retirement Plans (Continued)

Postretirement Medical Benefit Plan (continued)

The accumulated benefit obligation for the Staff Pension Plan was $217,551 and $208,922 as of August 31, 2020 and 2019, respectively.

	Staff Pension Plan Obligations	
	2020	2019
Service cost:	$ 1,546	$ 1,197
Periodic benefit expense	1,546	1,197
Non-operating:		
Interest cost	5,907	7,416
Expected return on plan assets	(9,692)	(9,742)
Amortization of net loss	2,277	1,361
Non-operating periodic benefit cost	(1,508)	(965)
Total net periodic benefit cost	$ 38	$ 232

	Postretirement Medical Benefits	
	2020	2019
Service cost:	$ 3,829	$ 2,235
Periodic benefit expense	3,829	2,235
Non-operating:		
Interest cost	2,704	2,928
Amortization of prior service cost	2,560	1,426
Amortization of net gain	(251)	(924)
Non-operating periodic benefit cost	5,013	3,430
Total net periodic benefit cost	$ 8,842	$ 5,665

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	
	2020	2019	2020	2019
Net (gain) loss arising during period	$ (4,237)	$ 11,525	$ 4,868	$ 9,652
New prior service cost	-	-	5,148	13,767
Amortizations				
Prior service cost	-	-	(2,560)	(1,426)
(Loss) gain	(2,277)	(1,361)	251	924
Total recognized in net assets without donor restrictions	$ (6,514)	$ 10,164	$ 7,707	$ 22,917
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (6,476)	$ 10,396	$ 16,549	$ 28,582

(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	
	2020	**2019**	**2020**	**2019**
Weighted-average assumptions				
Discount rate	2.33%	2.88%	2.18%	2.77%
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	
	2020	**2019**	**2020**	**2019**
Weighted-average assumptions				
Discount rate	2.88%	4.07%	2.77%	3.96%
Expected return on plan assets	5.50%	5.50%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

To develop the assumption for the expected rate of return on plan assets, SHC considered the historical and future expected returns. An independent investment consulting firm provided SHC with an estimate of the future expected returns for each asset class based on SHC's asset allocation targets. The evaluation of the historical returns and the future expected returns resulted in the use of 5.5% as the assumption for the expected return on plan assets.

To determine the accumulated postretirement benefit obligation as of August 31, 2020, a 6.0% annual rate of increase in the per capita cost of covered health care was assumed for calendar year 2020, declining gradually to 4.5% by 2038, and remaining at this rate thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement medical benefit plan. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated postretirement benefit obligation by $1,918 and the aggregate service and interest cost by $102. Decreasing the health care cost trend rate by 1% in each future year would decrease the accumulated postretirement benefit obligation by $1,912 and the aggregate service and interest cost by $109.

Plan Assets

SHC's Staff Pension Plan weighted-average asset allocations as of the measurement date August 31, 2020 and 2019, respectively, by asset category are as follows:

Asset Category	2020	2019
Debt securities	63%	60%
Equity securities	37%	40%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Assets (continued)

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

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

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

Plan Investments

The investment objective of the Staff Pension Plan ("Plan") is to efficiently balance expected long-term growth of funding status with prudent management of funding status volatility within the limits of Section 404 of the Employee Retirement Income Security Act. To ensure that the Plan meets its overall goal, the Plan seeks to achieve and maintain a fully funded position at an acceptable level of cost and risk as defined in the investment policy statement for the Plan's investment portfolio. This portfolio is managed by an investment manager hired on behalf of the Plan and its beneficiaries.

When funded status is low, as measured in the ratio of the Plan asset value to the Plan liability value, the primary Plan objective will be to reach full funding and consequently generating return, in excess of Plan liability, as appropriate within the constraints of the overall risk tolerance. As the funded status rises, the Plan's objective moves toward maintaining that funded level. This change in objective will lead to less focus on generating return and more focus on managing funded status volatility through liability hedging strategies. To aid in this transition, the Plan has adopted a glide path as seen below. If any asset class (equity or fixed income) within the Portfolio is +/- 5 percentage points from its target weighting, the investment manager acts within a reasonable period of time to evaluate deviation from these ranges and rebalance the portfolio accordingly.

Funded Ratio	Return Seeking Assets (Equity)	Liability Hedging Assets (Fixed Income)
Below 95%	40%	60%
95-99.9%	35%	65%
100-104.9%	30%	70%
105% and above	20%	80%

(in thousands of dollars)

10. Retirement Plans (Continued)

Plan Investments (continued)

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

Concentration of Risk

SHC manages a variety of risks, including market, credit, and liquidity risks, across Plan assets through investment managers. Concentration of risk is defined as an undiversified exposure to one of the risks mentioned above that increases the exposure of the loss of Plan assets unnecessarily. As of August 31, 2020, SHC did not have concentrations of risk.

Expected Contributions

SHC expects to make no contributions to its Staff Pension Plan for both SHC and LPCH employees during the fiscal year ending August 31, 2021. SHC expects to contribute $5,578 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2021.

Expected Benefit Payments

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

			Postretirement Medical Benefits	
		Pension Benefits	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2021		$ 11,560	$ 7,266	$ 7,537
2022		11,873	7,629	7,756
2023		12,068	7,709	7,830
2024		12,210	7,663	7,778
2025		12,311	7,632	7,740
2026 - 2030		61,062	38,773	39,198

(in thousands of dollars)

11. Net Assets Without Donor Restrictions

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

	Total	Controlling Interest	Noncontrolling Interests
Balance as of September 1, 2018	$ 3,304,125	$ 3,285,398	$ 18,727
Excess of revenues over expenses	364,460	357,087	7,373
Other changes in net assets without donor restrictions	(122,710)	(123,521)	811
Balance as of August 31, 2019	3,545,875	3,518,964	26,911
Excess of revenues over expenses	190,537	190,929	(392)
Noncontrolling capital distributions	(2,400)	-	(2,400)
Other changes in net assets without donor restrictions	459,893	459,566	327
Balance as of August 31, 2020	$ 4,193,905	$ 4,169,459	$ 24,446

12. Net Assets With Donor Restrictions

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

	2020	2019
Subject to expenditure for specified purpose:		
Other	$ 49,534	$ 46,447
Pledges receivable	47,396	62,396
Plant facilities	5,364	543,577
Total subject to expenditure for specified purpose	102,294	652,420
Subject to restriction in perpetuity:		
Accumulated appreciation	16,616	14,922
Endowment	14,633	9,431
Total subject to restriction in perpetuity	31,249	24,353
Total net assets with donor restrictions	$ 133,543	$ 676,773

Endowments

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

(in thousands of dollars)

12. Net Assets With Donor Restrictions (Continued)

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

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

Changes in SHC's endowment for the years ended August 31, 2020 and 2019 are as follows:

	2020	2019
Endowment net assets, beginning of year	$ 24,353	$ 22,215
Investment return:		
Investment income	748	599
Mark to market adjustments	1,465	702
Total investment return	2,213	1,301
Contributions	5,202	1,198
Expenditures	(519)	(361)
Endowment net assets, end of year	$ 31,249	$ 24,353

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by California UPMIFA, as of August 31, 2020 and 2019 are as follows:

	2020	2019
Clinical services	$ 6,048	$ 5,882
Education	7,983	7,380
Indigent care and other	17,218	11,091
Total endowment classified as net assets with donor restrictions	$ 31,249	$ 24,353

All of SHC's endowment, totaling $31,249 and $24,353 at August 31, 2020 and 2019, respectively, are invested in the MP. The original funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

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

12. Net Assets With Donor Restrictions (Continued)

Strategies Employed for Achieving Investment Objectives

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

13. Related-Party Transactions

Transactions with the University and SoM

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

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

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

Services provided by the SoM include physician services that benefit SHC, such as emergency room coverage, physicians providing medical direction to SHC, and physicians providing service to the clinical practice, which are covered by the Professional Services Agreement ("PSA"). Such expenses are reflected as purchased services in the consolidated statements of operations and changes in net assets, and total $875,369 and $808,567 for the years ended August 31, 2020 and 2019, 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 $131,791 and $122,615 for the years ended August 31, 2020 and 2019, 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 $1,598 and $2,211 for the years ended August 31, 2020 and 2019, respectively. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements, parking garages and generators and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 13 years total $13,830. Annual service fees range from approximately $957 for the year ending August 31, 2021 to $646 for the year ending August 31, 2033.

SHC also received payment for services provided to the University including primarily building maintenance, housekeeping, security, and information technology. 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 $77,545 and $48,402 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

13. Related-Party Transactions (Continued)

Transactions with the University and SoM (continued)

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $5,443 and $5,832 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue and recoveries.

During the year ended August 31, 2004, SHC paid $5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short-term portion of $108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2020 and 2019. The remaining amount included in other assets in the consolidated balance sheets is $3,379 and $3,487 as of August 31, 2020 and 2019, respectively.

For the years ended August 31, 2020 and 2019, SHC transferred $98,367 and $120,090, 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 $98,367 and $120,090 for the years ended August 31, 2020 and 2019, respectively, are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

SHC also received equity transfers of $162 and sent equity transfers of $316 during the years ended August 31, 2020 and 2019, 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, 2020 and 2019, SHC had an interest rate swap liability to Goldman Sachs of $86,160 and $77,826, respectively, and posted collateral of $16,810 and $5,440 for the years ended August 31, 2020 and 2019, respectively, for the same interest rate swap agreement. Additionally, SHC made net swap payments to Goldman Sachs of $3,247 and $2,482 for the years ended August 31, 2020 and 2019, respectively.

Transactions with LPCH

SHC and LPCH share certain departments, including facilities design and construction, materials management, Managed Care contracting, compliance and general services. Shared service costs are included in the respective categories on the consolidated statements of operations and changes in net assets, and are allocated between SHC and LPCH based on negotiated rates. Reimbursement received from LPCH totaled $38,157 and $38,175 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $38,207 and $38,375 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

(in thousands of dollars)

13. Related-Party Transactions (Continued)

Transactions with LPCH (continued)
Other services provided by SHC include services provided by interns and residents, building maintenance, IT and utilities. Reimbursement of these services totaled $41,418 and $41,882 for the years ended August 31, 2020 and 2019, respectively, and is reflected in the consolidated statements of operations and changes in net assets as expense recoveries.

14. Leases

Leasing Activities-Lessee
SHC's lease portfolio primarily consists of operating and finance leases for real estate, personal property, and equipment under non-cancelable lease agreements expiring at various dates. The amounts in the tables below do not reflect payments for leases that have not yet commenced in the amount of $23,934.

The following table presents the components of SHC lease expenses and the classification of such expenses in SHC consolidated statements of operations and changes in net assets for the year ended August 31, 2020:

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

The following table presents the supplemental cash flow information related to leases for the year ended August 31, 2020:

	2020
Operating cash flows from operating leases	$ 82,180
Operating cash flows from finance leases	4
Financing cash flows from finance leases	73
Total	$ 82,257

The right-of-use assets obtained in exchange for new lease obligations for year ended August 31, 2020 is $96,491.

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)

The following presents the weighted-average lease terms and discount rates for operating and finance leases as of August 31, 2020:

Weighted Average remaining lease term:	
Operating leases	5.77 years
Finance leases	2.17 years
Weighted Average discount rate:	
Operating leases	2.08%
Finance leases	1.79%

The following table includes the future maturities of lease payments for operating leases and finance leases for periods subsequent to August 31, 2020:

Year Ending August 31,	Operating	Finance	Total
2021	$ 82,897	$ 77	$ 82,974
2022	79,527	77	79,604
2023	72,731	13	72,744
2024	48,588	-	48,588
2025	28,612	-	28,612
Thereafter	78,858	-	78,858
Total lease payments	391,213	167	391,380
Less Interest	(28,258)	(3)	(28,261)
Total lease liabilities	362,955	164	363,119
Less current lease liabilities	(75,991)	(75)	(76,066)
Total non-current lease liabilities	$ 286,964	$ 89	$ 287,053

The following table includes the future maturities of minimum rental payments that are required to be paid under all non-cancelable operating leases and finance leases obligations for periods subsequent to August 31, 2019, prior to the adoption of ASC Topic No. 842:

Year Ending August 31,	Operating	Finance
2021	$ 79,271	$ 107
2022	73,406	107
2023	70,468	107
2024	64,352	30
2025	40,570	-
Thereafter	73,019	-
Total	$ 401,086	351
Less amount representing interest		(26)
Subtotal		325
Current portion		(93)
Long-term portion, net of current portion		$ 232

(in thousands of dollars)

14. Leases (Continued)

Leasing Activities-Lessee (continued)
Total rental expense (included in other expense in the consolidated statements of operations and changes in net assets) under these leases for the year ended August 31, 2019 was $122,587.

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, 2020:

Year Ending August 31,	2020
2021	$ 7,219
2022	5,229
2023	2,485
2024	1,706
2025	590
Thereafter	9,004
Total	$ 26,233

The following table includes the future maturities of minimum lease payments that will be received under all non-cancellable operating leases that will be received for periods subsequent to August 31, 2019:

Year Ending August 31,	2019
2020	$ 5,591
2021	5,513
2022	4,934
2023	2,449
2024	1,705
Thereafter	9,594
Total	$ 29,786

15. Commitments and Contingencies

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

SHC has irrevocable standby letters of credit in the amount of $20,422, 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, 2020.

15. Commitments and Contingencies (Continued)

At August 31, 2020, SHC had contractual obligations of approximately $155,577 primarily related to the construction of the new hospital and other capital projects and approximately $485,206 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.

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

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

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

15. Commitments and Contingencies (Continued)

The percentage of SHC employees that are covered by collective bargaining arrangements is approximately 32%. There are currently no expired agreements.

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

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

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

In June 2011, the Palo Alto City Council certified the Final Environmental Impact Report, land use changes, permits and a Development Agreement with SHC, LPCH and the University as part of a Renewal Project. In July 2011, the Palo Alto City Council provided final approval for the Renewal Project at the second reading of the Development Agreement. The Renewal Project will rebuild Stanford Hospital and expand LPCH to assure adequate capacity, meet State-mandated earthquake safety standards, and provide modern, technologically-advanced hospital facilities. The Renewal Project also includes replacement of outdated laboratory facilities at the SoM and remodeling of Hoover Pavilion. SHC's share of the estimated cost is approximately $2.105 billion. As of August 31, 2020, SHC has capitalized $2,097 million, exclusive of $185 million in capitalized interest, related to this project. SHC's portion of the Renewal Project construction was completed in Fall 2019.

Commencing in October 2020, major renovations ("300P Renewal") began on the D Pod patient care unit, which over the next two years, will modernize the four floors for all private patient rooms, enlarged bathrooms, and accommodation for rooming-in of family. Also this Fall, renovation will commence on the former adult emergency department to convert a large portion of it for a dedicated pediatric emergency service. Other major renovations planned for 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.

15. Commitments and Contingencies (Continued)

Over the course of the next six years, additional renovations are planned for the E Pod and F Pod patient care units, and new construction of 58 beds in extension towers. These improvements will enable the complete relocation of inpatient units that remain in the 1959-era portion of the hospital, and fulfill the seismic safety mandate to have all inpatient beds located in compliant structures. As of August 31, 2020, approximately $69 million, which was primarily for design and construction, was recorded to construction in progress. Estimated cost of the 300P Renewal program is approximately $1.2 billion.

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 business and individuals. SHC suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March through early May in 2020 due to COVID-19. Under certain provisions in the CARES Act, SHC recognized benefits totaling $135 million in its consolidated statement of operations for the year ended August 31, 2020. The $135 million benefit is comprised of $125 million in relief funds received and reported in other operating revenue and $10 million for the employee retention tax credit recorded as a reduction of salaries, wages and benefit expenses. SHC also deferred payment of $46 million for the employer portion of the Social Security payroll tax as allowed by the CARES Act. The employee retention tax credit is claimed against the employer portion of the Social Security tax. The impact of the payroll tax deferral and employee retention tax credit is a net liability of $36 million as of August 31, 2020 and is included in the other noncurrent liabilities on the accompanying consolidated balance sheet as of that date. Fifty percent of the deferred tax credit must be paid by December 31, 2021 with the remainder by December 31, 2022.

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, 2020. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes. Subsequent to SHC's fiscal year end, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements expanded the relief fund eligibility and updated reporting requirements. This constitutes a change from the terms and conditions previously communicated in March 2020, which indicated that "any reasonable method" could be utilized to calculate lost revenues attributable to COVID-19. Due to these new reporting requirements and the ongoing changes in the compliance requirements, there is at least a reasonable possibility that amounts recorded under CARES Act provider relief fund by SHC may change in future periods.

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

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, 2020.

(in thousands of dollars)

16. Functional Expenses

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

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

	2020			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 2,312,459	$ 234,959	$ 841	$ 2,548,259
Professional services	13,636	24,827	-	38,463
Supplies	810,600	9,803	-	820,403
Purchased services	1,358,977	86,753	13,229	1,458,959
Depreciation and amortization	236,553	21,172	-	257,725
Interest	68,014	5	-	68,019
Other	354,580	105,903	-	460,483
Expense recoveries from related parties	(80,782)	(24,997)	-	(105,779)
Total	$ 5,074,037	$ 458,425	$ 14,070	$ 5,546,532

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

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 2, 2020, the date the consolidated financial statements were issued.

Subsequent to SHC's fiscal year end, HHS published new reporting requirements for recipients of the CARES Act fund. SHC continues to evaluate the impact on the organization.

In November 2020, SHC extended its revolving line of credit facility to November 2021 and reduced its size to $150,000.

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Report of Independent Auditors

To the Board of Directors
Stanford Health Care

We have audited the consolidated financial statements of Stanford Health Care ("SHC") and its subsidiaries as of August 31, 2020 and 2019 and for the years then ended and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

December 2, 2020

Stanford Health Care
Consolidating Balance Sheet
August 31, 2020 and 2019
(in thousands of dollars)

	FY 2020											FY 2019
	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total	Aug 31, 2019
Assets												
Current assets:												
Cash and cash equivalents	$ 1,573,391	$ 20,001	$ 506	$ -	$ 26,741	$ 10,130	$ 8,267	$ -	$ 3,876	$ -	$ 1,642,912	$ 505,509
Assets limited as to use, held by trustee	92	-	-	-	-	-	-	-	-	-	92	11
Short term investments	-	-	-	-	-	-	-	-	-	-	-	399,639
Patient accounts receivable, net	592,761	22,858	36,529	-	-	2,194	-	-	-	-	654,342	685,425
Other receivables	113,083	3,016	4,337	918	31,902	2,424	9,028	50	2,695	(1,716)	165,737	93,529
Inventories	115,472	1,342	6,748	1,520	-	-	-	-	-	-	125,082	69,831
Prepaid expenses and other	68,439	14,412	23,793	229	265	583	782	58	48	(22)	108,587	84,524
Due from related parties	1,064	3,164	60,165	37,850	940	-	-	51	8,051	(111,285)	-	-
Total current assets	2,464,302	64,793	132,078	40,517	59,848	15,331	18,077	159	14,670	(113,023)	2,696,752	1,838,468
Investments	621,160	-	-	-	62,811	-	5,139	-	-	-	689,110	657,554
Investments at equity	110,326	-	7,245	-	(596)	-	-	-	-	-	116,975	97,963
Investments in University managed pools	1,558,829	-	-	-	51,908	-	-	-	-	-	1,610,737	1,478,554
Property and equipment, net	3,436,353	26,872	174,362	5,197	447	2,734	-	47	-	-	3,646,012	3,691,015
Right of use lease assets	294,366	48,689	24,887	13,513	1,489	1,658	-	1,026	-	(44,048)	341,580	-
Other assets	108,567	3,419	3,872	-	-	-	66	17	330	(57,738)	58,533	78,360
Investments in related entities	515,545	4,549	-	-	-	-	-	-	-	(520,094)	-	-
Total assets	$ 9,109,448	$ 148,322	$ 342,444	$ 59,227	$ 175,907	$ 19,723	$ 23,282	$ 1,249	$ 15,000	$ (734,903)	$ 9,159,699	$ 7,841,914
Liabilities and Net Assets												
Current liabilities:												
Accounts payable and accrued liabilities	$ 805,786	$ 28,369	$ 56,769	$ 4,075	$ 679	$ 225	$ 1,350	$ 120	$ 10,900	$ (24)	$ 908,249	$ 557,284
Accrued salaries and related benefits	237,641	33,035	16,267	(199)	599	-	-	68	-	-	287,411	275,099
Due to related parties	156,202	-	4,648	1,237	-	162	44	903	217	(111,285)	52,128	103,779
Third-party payor settlements	55,143	-	(31)	-	-	-	-	-	-	-	55,112	29,918
Current portion of long-term debt	116,045	-	1,713	-	-	-	-	-	-	(1,713)	116,045	114,235
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200	228,200
Operating lease liabilities, current	61,091	13,174	6,844	2,942	274	730	-	241	-	(9,230)	76,066	-
Self-insurance reserves and other	28,651	2,198	2,639	632	24,066	-	-	-	-	-	58,186	59,424
Total current liabilities	1,628,759	76,776	88,849	8,687	25,618	1,117	1,394	1,332	11,117	(122,252)	1,721,397	1,367,939
Self-insurance reserves and other, net of current portion	122,654	-	3,106	67	84,798	-	14,233	-	-	-	224,858	174,040
Swap liabilities	353,292	-	-	-	-	-	-	-	-	-	353,292	316,796
Operating lease liabilities, non-current	252,633	37,112	19,365	10,728	1,389	930	-	800	-	(35,904)	287,053	-
Other long-term liabilities	168,556	2,246	66,293	(157)	48	-	-	-	-	(56,653)	180,333	150,464
Pension liability	8,655	-	-	-	-	-	-	-	-	-	8,655	17,048
Long-term debt, net of current portion	2,056,663	-	-	-	-	-	-	-	-	-	2,056,663	1,592,979
Total liabilities	4,591,212	116,134	177,613	19,325	111,853	2,047	15,627	2,132	11,117	(214,809)	4,832,251	3,619,266
Net assets:												
Net assets without donor restrictions:												
Stanford Health Care	4,384,646	32,188	164,816	39,902	49,784	10,606	4,549	(883)	3,883	(520,032)	4,169,459	3,518,964
Noncontrolling interests	-	-	-	-	14,270	7,070	3,106	-	-	-	24,446	26,911
Total net assets without donor restrictions	4,384,646	32,188	164,816	39,902	64,054	17,676	7,655	(883)	3,883	(520,032)	4,193,905	3,545,875
Net assets with donor restrictions	133,590	-	15	-	-	-	-	-	-	(62)	133,543	676,773
Total net assets	4,518,236	32,188	164,831	39,902	64,054	17,676	7,655	(883)	3,883	(520,094)	4,327,448	4,222,648
Total liabilities and net assets	$ 9,109,448	$ 148,322	$ 342,444	$ 59,227	$ 175,907	$ 19,723	$ 23,282	$ 1,249	$ 15,000	$ (734,903)	$ 9,159,699	$ 7,841,914

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

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Years Ended August 31, 2020 and 2019
(in thousands of dollars)

	FY 2020											FY 2019
	SHC	UHA	SHC-VC	SBC	SHI	SEROC	PEAC	Care Counsel	SHC Advantage	Eliminations	Total	Aug 31, 2019
Operating revenues and other support:												
Net patient service revenue	$ 4,603,194	$ 260,218	$ 295,099	$ -	$ -	$ 10,397	$ -	$ -	$ -	$ (27,970)	$ 5,140,938	$ 5,113,052
Premium revenue	497	74,400	-	-	-	-	-	-	50,152	(8,078)	116,971	106,130
Grants - COVID-19	102,438	7,637	14,476	-	-	-	-	-	-	-	124,551	-
Other revenue	135,016	12,878	5,793	69,220	38,587	85	1,890	2,421	-	(91,597)	174,293	157,757
Net assets released from restrictions used for operations	10,667	-	156	-	-	-	-	-	-	-	10,823	13,063
Total operating revenues and other support	4,851,812	355,133	315,524	69,220	38,587	10,482	1,890	2,421	50,152	(127,645)	5,567,576	5,390,002
Operating expenses:												
Salaries and benefits	2,184,182	130,445	183,506	34,578	9,698	2,245	-	3,475	286	(156)	2,548,259	2,302,399
Professional services	30,141	4,002	1,997	36	1,078	977	601	33	843	(1,245)	38,463	41,300
Supplies	733,603	54,304	39,836	15,153	51	76	-	19	4,894	(27,533)	820,403	727,136
Purchased services	1,226,091	238,591	34,790	4,718	244	918	-	278	59,428	(106,099)	1,458,959	1,350,708
Depreciation and amortization	228,450	10,783	16,292	1,378	225	579	-	18	-	-	257,725	190,283
Interest	67,883	4	2,114	3	2	-	-	-	-	(1,987)	68,019	42,431
Other	374,632	30,544	39,463	7,013	28,245	1,663	360	436	925	(22,798)	460,483	483,258
Expense recoveries from related parties	(108,842)	(26,641)	-	-	-	-	-	(1,461)	-	31,165	(105,779)	(130,800)
Total operating expenses	4,736,140	442,032	317,998	62,879	39,543	6,458	961	2,798	66,376	(128,653)	5,546,532	5,006,715
Income (loss) from operations	115,672	(86,899)	(2,474)	6,341	(956)	4,024	929	(377)	(16,224)	1,008	21,044	383,287
Interest and investment income	43,625	90	41	-	1,788	-	323	-	93	(1,987)	43,973	42,904
Earnings on equity method investments	19,132	-	460	-	-	-	-	-	-	-	19,592	8,315
Change in value of University managed pools and other	157,603	-	-	-	4,117	-	-	-	-	-	161,720	76,748
Swap interest and change in value of swap agreements	(53,722)	-	-	-	-	-	-	-	-	-	(53,722)	(146,794)
Other components of net periodic benefit costs	(2,070)	-	-	-	-	-	-	-	-	-	(2,070)	-
Excess (deficiency) of revenues over expenses	280,240	(86,809)	(1,973)	6,341	4,949	4,024	1,252	(377)	(16,131)	(979)	190,537	364,460
Other changes in net assets without donor restrictions:												
Transfers to Stanford University	(98,367)	-	-	-	-	-	-	-	-	-	(98,367)	(120,090)
Transfers between SHC and SHC-VC	(6,915)	-	6,915	-	-	-	-	-	-	-	-	-
Change in net unrealized (loss) gain on investments	(2,580)	23	-	-	1,300	-	31	-	-	(23)	(1,249)	22,825
Net assets released from restrictions used for:												
Purchase of property and equipment	2,883	-	365	-	-	-	-	-	-	-	3,248	977
Purchase of property and equipment - New Stanford Hospital	555,219	-	-	-	-	-	-	-	-	-	555,219	-
Change in pension and postretirement liability	1,042	-	-	-	-	-	-	-	-	-	1,042	(26,422)
Noncontrolling capital contribution (distribution), net	-	95,911	-	-	-	(6,000)	-	-	16,100	(108,411)	(2,400)	-
Increase (decrease) in net assets without donor restrictions	731,522	9,125	5,307	6,341	6,249	(1,976)	1,283	(377)	(31)	(109,413)	648,030	241,750
Changes in net assets with donor restrictions:												
Transfers from (to) Stanford University	162	-	-	-	-	-	-	-	-	-	162	(316)
Contributions and other	21,587	-	497	-	-	-	-	-	-	-	22,084	31,079
Investment income	929	-	-	-	-	-	-	-	-	-	929	815
Gains on University managed pools	2,885	-	-	-	-	-	-	-	-	-	2,885	2,176
Net assets released from restrictions used for:												
Operations	(10,667)	-	(156)	-	-	-	-	-	-	-	(10,823)	(13,063)
Purchase of property and equipment	(2,883)	-	(365)	-	-	-	-	-	-	-	(3,248)	(977)
Purchase of property and equipment - New Stanford Hospital	(555,219)	-	-	-	-	-	-	-	-	-	(555,219)	-
(Decrease) increase net assets with donor restrictions	(543,206)	-	(24)	-	-	-	-	-	-	-	(543,230)	19,714
Increase (decrease) in net assets	188,316	9,125	5,283	6,341	6,249	(1,976)	1,283	(377)	(31)	(109,413)	104,800	261,464
Net assets, beginning of year	4,329,920	23,063	159,548	33,561	57,805	19,652	6,372	(506)	3,914	(410,681)	4,222,648	3,961,184
Net assets, end of year	$ 4,518,236	$ 32,188	$ 164,831	$ 39,902	$ 64,054	$ 17,676	$ 7,655	$ (883)	$ 3,883	$ (520,094)	$ 4,327,448	$ 4,222,648

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