Stanford MEDICINE Health Care

ANNUAL DISCLOSURE REPORT
OF
STANFORD HEALTH CARE
FOR
THE FISCAL YEAR ENDED AUGUST 31, 2023

DATED DECEMBER 11, 2023

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I. INTRODUCTION

Pursuant to the following Continuing Disclosure Agreements (the "Disclosure Agreements") executed and delivered in connection with the related bond issues (the "Bonds"), Stanford Health Care (the "Corporation") hereby provides its annual disclosure report for the fiscal year ended August 31, 2023 (the "Annual Disclosure Report"):

- Continuing Disclosure Agreement dated June 15, 2011 (the "Series 2011 Disclosure Agreement") relating to the reoffering of $84,100,000 California Health Facilities Financing Authority Refunding Revenue Bonds (Stanford Hospital and Clinics) 2008 Series B-2;

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

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

- Continuing Disclosure Agreement dated April 1, 2020, relating to the original issue of $170,120,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2020 Series A;

- Continuing Disclosure Agreement dated April 30, 2021, relating to the issuance of $157,715,000 California Health Facilities Financing Authority Revenue Bonds (Stanford Health Care), 2021 Series A;

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

Annual Report

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

Other Matters

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

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

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

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

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

Dated: December 11, 2023

STANFORD HEALTH CARE

By: /s/ Linda Hoff
Chief Financial Officer

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED AUGUST 31, 2023, AND 2022

The Audited Consolidated Financial Statements of the Corporation and subsidiaries (the "Financial Statements") for the fiscal year ended August 31, 2023 with comparative data for 2022 are presented in Appendix B. See Note 2 to the Financial Statements for a summary of significant accounting policies.

III. DEBT SERVICE REQUIREMENTS

The table below sets forth, for each year ending August 31, the amounts required to be paid by the Corporation for payment of the principal, whether by payment or maturity or mandatory sinking account redemption, and interest on all the outstanding bonds of the Corporation.

				Debt Service					
Fiscal Year Ending August 31	2008 Series B(1)	2015 Series A	2017 Series A	Taxable Series 2018 (2)	2020 Series A(2)	Taxable Series 2020 (2)	2021 Series A(3)	Taxable Series 2021(2)	Total Debt Service
2024	4,063,732	4,812,500	33,956,075	28,200,000	9,111,757	15,925,000	4,731,450	18,691,577	119,492,091
2025	4,052,553	4,812,500	37,318,825	28,199,911	9,113,156	15,926,566	4,731,450	18,690,314	122,845,274
2026	4,058,142	4,812,500	37,281,450	28,196,540	9,110,666	15,926,511	7,057,964	18,692,089	125,135,862
2027	4,058,142	4,812,500	37,176,450	28,199,507	9,114,288	15,924,671	7,065,714	18,691,600	125,042,871
2028	4,063,732	4,812,500	37,126,950	28,198,053	9,108,684	15,920,880	7,071,152	18,688,694	124,990,643
2029	4,052,553	4,812,500	37,054,825	28,201,798	9,114,022	15,924,973	7,074,278	18,693,220	124,928,168
2030	4,058,142	4,812,500	37,012,450	28,199,984	9,109,797	15,926,452	7,075,092	18,689,726	124,884,142
2031	4,058,142	4,812,500	36,942,200	28,202,230	9,116,176	15,925,153	7,073,594	18,693,209	124,823,204
2032	4,063,732	4,812,500	36,872,075	28,202,779	9,112,652	15,925,910	7,069,784	18,693,217	124,752,649
2033	4,052,553	4,812,500	36,848,075	28,201,061	9,114,395	15,928,392	7,063,662	18,694,598	124,715,235
2034	4,058,142	4,812,500	36,645,575	28,196,506	9,111,067	15,922,268	7,055,228	18,692,049	124,493,335
2035	4,058,142	4,812,500	36,429,800	28,198,545	9,112,667	15,927,538	7,044,482	18,695,420	124,279,094
2036	4,063,732	4,812,500	32,085,400	28,201,230	9,113,858	15,928,540	7,031,424	18,694,255	119,930,938
2037	4,052,553	4,812,500	32,137,650	28,198,801	9,109,470	15,925,109	7,016,054	18,688,404	119,940,539
2038	4,058,142	4,812,500	34,793,025	28,195,689	9,109,503	15,922,078	6,998,372	18,692,715	122,582,024
2039	4,058,142	4,812,500	34,824,500	28,201,136	9,113,619	15,924,118	6,978,378	18,691,583	122,603,976
2040	4,063,732	4,812,500	34,318,200	28,204,003	9,116,481	15,925,731	6,956,072	18,694,857	122,091,574
2041	4,052,553	4,812,500	31,869,900	28,198,530	9,112,919	15,926,586	6,931,454	18,692,082	119,596,522
2042	34,576,561	4,812,500	-	28,199,149	9,107,933	15,921,353	6,904,524	18,688,107	118,210,125
2043	34,859,445	4,812,500	-	28,199,720	9,111,354	15,924,866	6,875,282	18,692,629	118,475,795
2044	35,610,808	4,812,500	-	28,199,296	9,112,674	15,926,463	6,843,728	18,690,043	119,195,513
2045	36,072,429	4,812,500	-	28,196,928	9,111,726	15,925,813	6,809,862	18,690,199	119,619,456
2046	36,705,395	4,812,500	-	28,201,666	9,113,340	15,927,585	6,773,684	18,692,640	120,226,809
2047	-	4,812,500	-	28,197,183	9,107,177	15,921,283	6,680,194	18,691,915	83,410,250
2048	-	4,812,500	-	28,202,719	9,113,238	15,926,740	6,580,981	18,692,719	83,328,896
2049	-	4,812,500	-	28,196,757	9,110,846	15,923,130	6,481,191	18,694,599	83,219,022
2050	-	4,812,500	-	28,198,537	9,110,002	15,925,287	6,380,822	18,692,100	83,119,248
2051	-	4,812,500	-	28,201,542	9,115,367	15,927,549	6,279,876	18,694,921	83,031,754
2052	-	36,657,500	-	28,199,443	9,116,434	15,929,420	24,483,351	18,697,455	133,083,603
2053	-	36,652,750	-	28,201,102	9,113,035	15,930,402	23,832,234	18,694,249	132,423,772
2054	-	36,655,500	-	-	-	-	23,181,117	-	59,836,617
Total	250,871,201	244,715,750	640,693,425	845,990,340	273,368,302	477,766,364	260,132,438	560,771,183	3,554,309,001

(1) Variable rates assume 12 month average remaketing rates for 2008B1 and 2008B2 bonds; swaps assume 12 month historical average of SOFR multiplied by the appropriate percentages
(2) Assumes interest is smoothed as level debt service over 30 years at original YTM of bonds issued
(3) After 2025 put date, assumes interest is payable at assumed rate of 2.89% to maturity (12 month SIFMA average)

IV. SELECTED FINANCIAL AND OPERATING DATA WITH RESPECT TO THE FISCAL YEARS ENDED AUGUST 31, 2023 AND 2022

The Selected Financial and Operating Data with Respect to the Fiscal Years Ended August 31, 2023 and 2022 below should be read in conjunction with the Financial Statements and accompanying notes.

The tables below present (i) Historical Utilization, (ii) Historical Consolidated Capitalization, (iii) Liquidity, and (iv) Maximum Annual Debt Service Coverage.

(i)
Historical Utilization

	Twelve Months Ended August,	
	2023	**2022**
Discharges		
Acute	33,265	30,684
Behavioral Health	588	711
Total	**33,853**	**31,395**
Patient Days		
Acute	232,821	212,210
Behavioral Health	9,996	9,571
subtotal	**242,817**	**221,781**
Short Stay OP	15,213	15,573
Total	**258,030**	**237,354**
Average Daily Census		
Acute	637.9	581.4
Behavioral Health	27.4	26.2
Total	**665.3**	**607.6**
Average Length of Stay		
Acute	7.00	6.92
Behavioral Health	17.00	13.46
Total	**7.17**	**7.06**
Case Mix Index	2.68	2.71
Emergency room visits(1)	107,521	97,805
Short Stay OP procedures	54,895	50,298
Other Outpatient visits(2)	1,194,657	1,383,054
Surgeries		
Inpatient	12,787	12,972
Outpatient	30,991	29,331
Total	**43,778**	**42,303**

(ii)
Historical Consolidated Capitalization
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2023	**2022**
Net Long-Term Debt [1]	$2,270,445	$2,295,337
Net Assets without Donor Restrictions	6,698,906	5,972,760
Total Consolidated Capitalization (non-GAAP)	$8,969,351	$8,268,097
Net Long-Term Debt as a percentage of Total Consolidated Capitalization	25.3%	27.8%

(1) Excludes lease liability

(iii)
Liquidity
(Dollars in Thousands)

	Fiscal Years Ended August 31,	
	2023	**2022**
Cash and Cash Equivalents	$611,592	$536,803
Investments	2,296,099	2,066,292
Investments in Stanford University Managed Investment Pools[1]	2,587,499	2,504,088
Less Funds Internally Designated or Donor Restricted for Long-Term Purposes	(148,288)	(128,989)
Total Liquid Assets[2]	$5,346,902	$4,978,194
Days Cash on Hand[3]	271	274

(1) See Note 2 and Note 6 of the audited consolidated financial statements of the Corporation included as Appendix B to this Annual Disclosure Report for a description of the Managed Investment Pools in which the Corporation has invested.

(2) Not defined by accounting principles generally accepted in the United States and may not be comparable to similarly titled measures used by other organizations.

(3) Total unrestricted cash and investments multiplied by actual number of days, divided by the total operating expenses net of depreciation and amortization.

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

	Fiscal Years Ended August 31,	
	2023	**2022**
Excess of Revenues over Expenses	780,643	395,540
Depreciation and Amortization	263,140	270,346
Interest Expense	74,100	71,940
Change in value of University Managed Pools and Other	(210,460)	375,746
Earnings on Equity Method Investments	(42,980)	(36,188)
Interest Rate Swap Mark-to-Market Adjustment	(59,644)	(139,748)
Loss on Extinguishment of Debt	-	-
Funds Available for Debt Service[1]	$804,799	$937,636
Maximum Annual Debt Service[2]	$133,084	$137,071
Coverage of Maximum Annual Debt Service[3]	6.05	6.84

(1) Not defined by accounting principles generally accepted in the United States and may not be comparable to similarly titled measures used by other organizations

(2) Is subject to assumptions under the "Debt Service Requirements" section and excludes all swap cash flows

(3) Ratio of Funds Available for Debt Service to the Maximum Annual Debt Service

APPENDIX A

Bond Issues and Related CUSIP Numbers

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

CUSIP	Maturity Date	Current Commercial Paper Interest Rate (%)	Original Principal Amount
13033LNX1	11/15/2045	3.35	$ 42,050,000

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

CUSIP	Maturity Date	Current Commercial Paper Interest Rate (%)	Original Principal Amount
13033LNY9	11/15/2045	3.20	$ 42,050,000

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

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

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

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

California Health Facilities Financing Authority
Revenue Bonds
(Stanford Health Care)
2020 Series A

CUSIP	Maturity Date	Interest Rate (%)	Original Principal Amount
13032UVN5	08/15/2050	4.00	$ 170,120,000

California Health Facilities Financing Authority
Revenue Bonds
(Stanford Health Care)
2021 Series A

CUSIP	Maturity Date	Mandatory Tender Date	Interest Rate (%)	Original Principal Amount
13032UYT9	08/15/2054	8/15/2025	3.00	$ 157,715,000

APPENDIX B

Audited Consolidated Financial Statements
for the Fiscal Years Ended
August 31, 2023 and 2022

Stanford Health Care

Consolidated Financial Statements
and Accompanying Consolidating Information
August 31, 2023 and 2022

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Report of Independent Auditors

To the Board of Directors of
Stanford Health Care

Opinion

We have audited the accompanying consolidated financial statements of Stanford Health Care and its subsidiaries ("SHC"), which comprise the consolidated balance sheets as of August 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SHC as of August 31, 2023, and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information as of and for the years ended August 31, 2023 and 2022 (the "supplemental information") is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information is not intended to present, and we do not express an opinion on, the financial position, results of operations, changes in net assets and cash flows of the individual companies. The supplemental 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 supplemental 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 supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

San Francisco, California
December 6, 2023

Stanford Health Care
Consolidated Balance Sheets
August 31, 2023 and 2022
(in thousands of dollars)

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 611,592	$ 536,803
Short term investments	73,957	72,009
Patient accounts receivable, net	1,042,786	1,023,568
Other receivables	141,847	115,203
Inventories	111,726	107,750
Prepaid expenses and other	131,202	136,216
Due from Lucile Salter Packard Children's Hospital at Stanford	17,315	-
Total current assets	2,130,425	1,991,549
Investments	1,987,069	1,827,594
Investments at equity	235,073	166,689
Investments in University managed pools	2,587,499	2,504,088
Assets limited as to use for capital projects & other long-term purposes	44,856	-
Property and equipment, net	3,875,677	3,725,488
Right of use lease assets	318,150	247,572
Due from Stanford University - housing loans	186,726	149,627
Other assets	51,136	51,571
Total assets	$ 11,416,611	$ 10,664,178
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 625,120	$ 623,232
Accrued salaries and related benefits	467,582	482,073
Due to related parties	-	218,641
Due to Stanford University	238,778	-
Third-party payor settlements	69,124	63,324
Current portion of long-term debt	13,475	17,065
Debt subject to remarketing arrangements	168,200	168,200
Operating lease liabilities, current	69,335	73,742
Self-insurance reserves and other	116,798	97,400
Total current liabilities	1,768,412	1,743,677
Self-insurance reserves and other, net of current portion	236,193	221,878
Swap liabilities	86,262	145,906
Operating lease liabilities, net of current portion	260,677	187,592
Other long-term liabilities	139,462	137,195
Long-term debt, net of current portion	2,088,770	2,110,072
Total liabilities	4,579,776	4,546,320
Net assets:		
Without donor restrictions:		
Attributable to Stanford Health Care	6,658,752	5,934,103
Noncontrolling interests	40,154	38,657
Total without donor restrictions	6,698,906	5,972,760
With donor restrictions	137,929	145,098
Total net assets	6,836,835	6,117,858
Total liabilities and net assets	$ 11,416,611	$ 10,664,178

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, 2023 and 2022
(in thousands of dollars)

	2023	2022
Operating revenues and other support:		
Net patient service revenue	$ 7,521,035	$ 6,922,468
Premium revenue	65,386	75,310
Grants - COVID-19 and FEMA	32,031	215,316
Other revenue	242,041	192,353
Net assets released from restrictions used for operations	11,213	7,020
Total operating revenues and other support	7,871,706	7,412,467
Operating expenses:		
Salaries and benefits	3,575,799	3,344,920
Professional services	75,539	75,439
Supplies	1,171,175	1,009,604
Purchased services	1,757,521	1,598,840
Depreciation and amortization	263,140	270,346
Interest	74,100	71,940
Other	539,566	523,285
Total operating expenses	7,456,840	6,894,374
Income from operations	414,866	518,093
Interest and investment income	63,151	99,924
Earnings on equity method investments	42,980	36,188
Change in value of University managed pools and other	210,460	(375,746)
Swap interest and change in value of swap agreements	55,155	120,324
Other components of net periodic benefit costs	(5,969)	(3,243)
Excess of revenues over expenses	780,643	395,540
Other changes in net assets without donor restrictions:		
Transfers to Stanford University	(89,645)	(112,361)
Transfers from Lucile Salter Packard Children's Hospital at Stanford	1,783	-
Change in net unrealized gain (loss) on investments	9,974	(24,894)
Net assets released from restrictions used for:		
Purchase of property and equipment	20,281	11,759
Change in pension and postretirement liability	4,039	1,694
Noncontrolling capital (distribution) contribution	(929)	7,864
Increase in net assets without donor restrictions	726,146	279,602
Changes in net assets with donor restrictions:		
Transfers (to) from Stanford University	(258)	3,128
Contributions and other	20,884	9,178
Investment income	1,640	1,037
Gains (losses) on University managed pools	2,059	(799)
Net assets released from restrictions used for:		
Operations	(11,213)	(7,020)
Purchase of property and equipment	(20,281)	(11,759)
Decrease in net assets with donor restrictions	(7,169)	(6,235)
Increase in net assets	718,977	273,367
Net assets, beginning of year	6,117,858	5,844,491
Net assets, end of year	$ 6,836,835	$ 6,117,858

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

Stanford Health Care
Consolidated Statements of Cash Flows
Years Ended August 31, 2023 and 2022
(in thousands of dollars)

	2023	2022
Cash flows from operating activities:		
Change in Stanford Health Care net assets	$ 717,480	$ 264,788
Change in noncontrolling interests	1,497	8,579
Total change in net assets	718,977	273,367
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	258,477	262,412
Change in fair value of interest rate swaps	(59,644)	(139,748)
(Increase) decrease in value of University managed pools	(83,477)	74,130
Unrealized (gains) losses on investments	(137,314)	328,577
Excess of income on equity method investees over distributions received	(46,722)	(25,199)
Contributions received for long lived assets or endowment	(11,491)	(11,150)
Net equity transfers to related parties	88,120	109,233
Changes in operating assets and liabilities:		
Patient accounts receivable	(19,218)	(258,620)
Due to related parties	41,420	33,435
Other receivables, inventory, other assets, prepaid expenses and other	(45,939)	1,772
Accounts payable, accrued liabilities and pension liabilities	2,127	(13,386)
Accrued salaries and related benefits	(14,491)	86,436
Third-party payor settlements	5,800	7,665
Self-insurance reserves	29,972	22,595
Cash provided by operating activities	726,597	751,519
Cash flows from investing activities:		
Purchases of investments	(249,060)	(904,094)
Sales of investments	207,767	860,951
Purchases of investments at equity	(26,016)	-
Purchases of investments in University managed pools	(2,086)	(51,483)
Sales of investments in University managed pools	2,509	125
Funding of Stanford University - housing loans	(46,968)	(45,741)
Repayments received on Stanford University - housing loans	7,172	10,285
Swap settlement payments, net	(5,095)	(19,811)
Purchases of property and equipment	(411,295)	(365,946)
Cash used in investing activities	(523,072)	(515,714)
Cash flows from financing activities:		
Costs of issuance of debt	(54)	(4)
Payment of long-term debt and finance lease obligations	(17,078)	(15,581)
Contributions received for long lived assets or endowment	11,440	10,272
Net equity transfers to related parties	(123,044)	(100,733)
Cash used in financing activities	(128,736)	(106,046)
Net increase in cash and cash equivalents	74,789	129,759
Cash and cash equivalents, beginning of year	536,803	407,044
Cash and cash equivalents, end of year	$ 611,592	$ 536,803
Supplemental disclosures of cash flow information:		
Interest paid	$ 81,573	$ 79,701
Supplemental disclosures of non cash information:		
Increase in payables for property and equipment	$ 13,343	$ 10,624
Equity transfers from related parties, net	1,215	1,274

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. SHC, together with Lucile Salter Packard Children's Hospital at Stanford ("LPCH"), operates the clinical settings through which the SoM educates medical and graduate students, trains residents and clinical fellows, supports faculty and community clinicians and conducts medical and biological sciences research.

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

The consolidated financial statements include University HealthCare Alliance (dba Stanford Medicine Partners) ("SMP"), Stanford Health Care Tri-Valley ("SHC Tri-Valley"), 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 Eden Radiation Therapy Services, LLC ("ERTS").

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

SHC Tri-Valley, a 242 licensed bed community hospital system located in the East Bay's Tri-Valley region of Pleasanton, Livermore, and Dublin, California offers both inpatient and outpatient services. SHC is the sole corporate member. SHC Tri-Valley also owns Tri-Valley Ambulatory Surgery Center, LLC ("TVASC") organized in October 2019. TVASC's operations are targeted to commence in year 2026.

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, 2023 and 2022. 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, 2023 and 2022.

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.

1. Organization (continued)

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 83.3% and 79.9% for the years ended August 31, 2023 and 2022, respectively. LPCH’s share of net assets in SUMIT was 16.7% and 20.1% for the years ended August 31, 2023 and 2022, respectively, and is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

TRA provides risk management services to SHI and serves as attorney-in-fact to PEAC. SHC’s share of net assets in TRA is 82% and the remaining 18% is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets as of August 31, 2023 and 2022.

PEAC, a captive insurance carrier, provides insurance coverage to SMP, Packard Children’s Health Alliance and other affiliated parties. SHC’s share of net assets in PEAC was 59.9% and 52.6% for the years ended August 31, 2023 and 2022, respectively. The remaining interest of 40.1% and 47.4% for the years ended August 31, 2023 and 2022, respectively, is recorded as a noncontrolling interest in net assets without donor restrictions on the consolidated balance sheets.

On February 8, 2021, Oncology Solutions Venture, LLC (“OSV”) was formed as a limited liability company to expand access to coordinated, state-of-the-art cancer care services for patients and their families in the East Bay region. SHC and Sutter Bay Hospitals (“Sutter”) are the only members of OSV. No contributions have been made as of August 31, 2023. SHC will contribute $3,000 as the initial capital contribution with 60% interest and Sutter will contribute $2,000 with 40% interest. No significant activities have occurred during the fiscal years ending August 31, 2023 and 2022.

On February 23, 2022, ERTS was formed as a limited liability company to provide a stable, high quality academically integrated radiation oncology service to patients residing in the Eden area, to complement SHC’s broader cancer network and the Sutter Stanford Cancer Collaborative. SHC and Sutter are the only members of ERTS. SHC and Sutter initial capital contributions were $12,246 and $8,164, respectively. After initial and additional contributions, SHC’s and Sutter’s interest in ERTS will be 60% and 40%, respectively.

2. Summary of Significant Accounting Policies

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

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

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

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

Expenses are 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 consist primarily of unrestricted demand deposits and money market mutual funds. SHC has elected the policy to treat cash equivalents held for investment purpose as investments (see Note 6); therefore, they are excluded from cash and cash equivalents on the consolidated statements of cash flows.

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

Investments
Investments held directly by SHC consist of cash and cash equivalents, U.S. government securities, debt securities, mutual funds, public and private investments, which are stated at fair value and further described in Note 6. 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, excess of revenues over expenses.

2. Summary of Significant Accounting Policies (continued)

Investments at Equity

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

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, 2023 and 2022.

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, 2023 and 2022.

PPA II is a California limited liability company which owns and operates a medical office building in Pleasanton. SHC Tri-Valley's interest in PPA II was 39% for the years ended August 31, 2023 and 2022.

EBREV is a limited liability company which develops, constructs, and manages a medical office and outpatient services facility on the Alta Bates Summit Medical Center campus at 350 Hawthorne Avenue, Oakland, California. SHC and Sutter are the only members of EBREV and have contributed $26,000 each as the initial capital contribution for a 50% interest.

Investments in University Managed Pools

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

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

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

2. Summary of Significant Accounting Policies (continued)

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 liquidate certain assets when, and if, requirements warrant.

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

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

- Working capital outflows
- Swaps collateral posting
- Repayment of all maturing debt and credit facilities
- Other large, committed payments

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

In addition to the financial assets, SHC has an authorized short-term taxable commercial paper program and a revolving line of credit facility that can be available for unexpected liquidity needs.

(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

Financial Assets and Liquid Resources (continued)

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

	2023	2022
Financial assets:		
Cash and cash equivalents	$ 611,592	$ 536,803
Patient accounts receivable, net	1,042,786	1,023,568
Short term investments	73,957	72,009
Investments	1,842,728	1,097,127
10% of long-term investments in Merged Pool	247,045	238,931
Financial assets available to meet cash needs for general expenditure within one year	$ 3,818,108	$ 2,968,438
Liquid resources:		
Taxable commercial paper	150,000	-
Revolving line of credit capacity	100,000	100,000
Total financial assets and liquid resources available within one year	$ 4,068,108	$ 3,068,438

Property and Equipment

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

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

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

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

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

Asset Retirement Obligations

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

2. Summary of Significant Accounting Policies (continued)

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)". The new guidance was adopted by SHC and its subsidiaries in fiscal year 2020. Accounting Standards Codification ("ASC") Topic 842 includes various other practical expedients that can be elected for new leases that are executed after the adoption of the new requirements. SHC elected the practical expedient to not separate lease and non-lease components. SHC also elected to apply the short-term lease recognition exemption which eliminates the requirement to present on the consolidated balance sheets leases with a term of twelve months or less. These two practical expedients were elected for all classes of underlying assets.

Other Assets

Other assets include prepaid cloud computing costs, intangible assets, and other long-term assets.

Contributions Receivable

Unconditional promises to give ("contributions") are recorded at fair value at the date the promise is received. Donations for specific purposes are reported as net assets with donor restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the promises are received and are recorded in the category of net assets with donor restrictions. The discount rates were determined using the risk free rate adjusted for the risk of donor default. At August 31, 2023 and 2022, current contributions receivable not restricted for long term purposes are included in other receivables. At August 31, 2023, contributions receivable that are restricted for long-term purposes are recorded in assets limited as to use for capital projects and other long-term purposes regardless of due date. At August 31, 2022, the long-term portion of contributions receivable were reported in other assets. 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.

Assets Limited as to Use for Capital Projects and Other Long-Term Purposes

Assets limited as to use for capital projects and other long-term purposes include contributions receivable that have been restricted by donors or otherwise designated for the purpose of acquiring or improving property, plant, and equipment or for other long-term purposes. These assets are not available for general operations and are required to be used in accordance with the donor restrictions or applicable law or regulation. The organization monitors these assets to ensure that they are being used in accordance with donor restrictions or applicable laws and regulation.

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.

2. Summary of Significant Accounting Policies (continued)

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 2023 and 2022, the swap settlements (net cash payments less receipts) under the interest rate swap agreements have been recorded as an increase 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.

Cash Flows from Financing Activities

Included within the cash flows from financing activities section for the year ended August 31, 2022, is a cash inflow from a restricted donation made by Charities Aid Foundation on the instruction by The Dalia and Ramzi Charitable Trust of $1,000 of which $965 and $35 has been used for the years ended August 31, 2023 and 2022, respectively.

Net Patient Service Revenue

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

Thus, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Generally, SHC bills 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.

2. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

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 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.

Charity Care and Community Benefits

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

Premium Revenue

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

2. Summary of Significant Accounting Policies (continued)

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

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

Self-Insurance Plans
SHC, SHC Tri-Valley and SBC self-insure for professional, general, and cyber liability risks, and postretirement medical benefits, workers’ compensation and health and dental benefits. These liabilities are actuarially determined and reflected as self-insurance reserves in the consolidated balance sheets.

- ***Liability*** — SHC, SHC Tri-Valley and SBC are self-insured through SUMIT for professional, general, and cyber liability losses under claims-made coverage. SHC, SHC Tri-Valley and SBC also maintain professional liability reserves for unreported claims which total $13,439, $1,355, and $87 as of August 31, 2023, respectively. As of August 31, 2022, this coverage was $13,959, $1,385, and $92 for SHC, SHC Tri-Valley and SBC, respectively. In fiscal year 2023 and 2022, SUMIT has retained 100% of the risk related to the first $15,000 per occurrence for professional and general liability losses. The next $175,000 is transferred to various reinsurance companies. For cyber liability, SUMIT retains $2,500 in excess of a $2,500 per claim retention with the next $90,000 transferred to various reinsurance companies.

- ***Postretirement Medical Benefits*** — Liabilities for postretirement medical claims for current and retired employees have been recorded based on an actuarial estimate.

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

- ***Health and Dental*** — Liabilities for health and dental claims for current employees have been recorded based on an actuarial estimate.

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.

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

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

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

Use of Estimates

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

Revision

In 2023, SHC identified an incorrect classification related to long-term advances made to Stanford University; understating due from related parties, non-current and due to related parties, current, by $149,627 as of August 31, 2022 and understating cash inflows from operations, net, and cash outflows from investing activities, net, by $35,456 for the year ended August 31, 2022. Additionally, Note 13, Related party transactions, omitted the disclosure of the arrangements. SHC has evaluated the materiality of the misclassifications quantitatively and qualitatively and concluded they are not material to SHC's previously issued fiscal year 2022 consolidated financial statements. SHC elected to revise the fiscal year 2022 consolidated balance sheet, consolidated statement of cash flows, and Note 13, Related party transactions, in these financial statements to correct the misclassifications. This revision had no impact on the fiscal year 2022 consolidated statement of operations and changes in net assets and no impact on previously reported net assets.

Recent Pronouncements – effective in fiscal years 2023 and 2022

Periodically, the FASB issues updates to the ASC which may impact SHC's financial reporting and related disclosures. The following paragraphs summarize relevant updates.

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. This guidance was adopted in fiscal year 2022. Refer to Note 10 for applicable disclosures.

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

2. Summary of Significant Accounting Policies (continued)

Recent Pronouncements – effective in fiscal years 2023 and 2022 (continued)
Accounting for Certain Equity Method Investments – In January 2020, the FASB issued ASU 2021-01, *Clarifying the Interactions between Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. This ASU clarifies the accounting treatment of certain equity securities upon application or discontinuation of the equity method of accounting and clarifies accounting of forward contracts and purchased options for securities that will be accounted for under the equity method of accounting upon settlement or exercise. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements.

Reference Rate Reform – In March 2020 and January 2021, the FASB issued ASU 2020-04 and 2021-01, respectively, *Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. These ASUs contain optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform. The guidance is effective for SHC during the fiscal year ending August 31, 2022. This guidance was adopted in fiscal year 2022 and it did not materially impact SHC's consolidated financial statements. In December 2022, the FASB issued ASU 2022-06 which defers the sunset date of ASC 848 from December 31, 2022 to December 31, 2024. The guidance is effective for SHC during the fiscal year ending August 31, 2023. This guidance was adopted in fiscal year 2023 and it did not materially impact SHC's consolidated financial statements.

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

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

Certain Leases with Variable Lease Payments – In July 2021, the FASB issued an amendment to ASC 842 ASU No. 2021-05, *Certain Leases with Variable Lease Payments.* This ASU amends ASC 842 so that lessors are no longer required to recognize a selling loss upon commencement of a lease with variable lease payments that, prior to the amendments, would have been classified as a sales-type lease or direct financing lease. This amendment is not applicable to SHC because SHC has not recognized any selling loss with variable leases.

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, 2012. Professional services are reimbursed based on a fee schedule.

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

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

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

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

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

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

(in thousands of dollars)

3. Net Patient Service Revenue (continued)

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

	2023	2022
Medicare	$ 1,279,346	$ 1,119,713
Medi-Cal	175,157	168,892
Managed Care	5,723,278	5,327,820
Self pay and other	299,241	261,785
Related party	44,013	44,258
Net patient service revenue	$ 7,521,035	$ 6,922,468

SHC recognized net patient service revenue adjustments of $16,514 and $6,069 as a result of prior years favorable developments and appeals settled during the years ended August 31, 2023, and 2022 respectively.

Amounts due from major payors as a percentage of net patient accounts receivable at August 31 are as follows:

	2023	2022
Blue Cross	21%	25%
Medicare	12%	11%
Blue Shield	11%	9%
Aetna	10%	10%
United Health	8%	7%

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

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, 2016. Centers for Medicare & Medicaid Services ("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, 2022.
- Managed Care program for January 1, 2014 through December 31, 2020.

For the years ended August 31, 2023 and 2022, respectively, SHC recognized $118,859 and $98,230 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, 2023 and 2022, respectively, SHC recognized $65,827 and $54,850 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.

(in thousands of dollars)

3. Net Patient Service Revenue (continued)

California Hospital Quality Assurance Fee Program (continued)
California's participation in the provider fee program, as authorized under federal regulations, has been made permanent by the passage of Proposition 52, an initiative on the November 2016 ballot. Three iterations of the hospital provider fee program under the permanent legislation cover the following periods:

- January 1, 2017 to June 30, 2019
- July 1, 2019 to December 31, 2021
- January 1, 2022 to December 31, 2022

These periods have been approved by CMS for the FFS program and the Managed Care program up to December 31, 2020. Accordingly, any potential activity under the Managed Care program subsequent to January 1, 2021 has not been recognized as revenue in the consolidated financial statements.

SHC recorded $42,713 and $73,145 in deferred revenue as of August 31, 2023 and 2022, respectively, pending CMS approval. SHC also recorded $38,074 and $44,121 as prepaid expense for the years ended August 31, 2023 and 2022 respectively, pending CMS approval. Deferred revenue and prepaid expenses associated with unapproved HQAF will be recognized as revenue and expense respectively, upon CMS approval.

4. Charity Care, Uncompensated Costs and Community Benefits

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

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

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

	2023	2022
Charity care at established rates	$ 79,287	$ 75,804
Estimated cost of charity care, net	$ 16,320	$ 16,202

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

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

	2023	2022
Charity care	$ 16,320	$ 16,202
Medi-Cal	503,202	466,750
Medicare	1,343,807	1,261,205
Total	$ 1,863,329	$ 1,744,157

(in thousands of dollars)

5. Contributions Receivable

Contributions are recorded at the discounted net present value of the future cash flows, adjusted for the risk of donor default, using discount rates ranging from 0.64% to 4.72% for fiscal year August 31, 2023 and 0.64% to 3.84% for fiscal year August 31, 2022.

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

	2023	2022
In one year or less	$ 19,883	$ 29,346
Between one year and five years	29,352	13,695
More than five years	1,250	2,250
	50,485	45,291
Less: discount/allowance	(5,303)	(3,414)
Total contributions receivable, net	45,182	41,877
Less: current portion	(18,266)	(26,858)
Contributions receivable, net of current portion	$ 26,916	$ 15,019

See Note 2 for further discussion.

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

	2023	2022
Plant replacement and expansion	$ 49,217	$ 44,215
Other patient and clinical services	1,268	1,076
Total	$ 50,485	$ 45,291

For the years ended August 31, 2023 and 2022, contribution receivable net of discount/allowance are recorded as follows:

Classification on Consolidated Balance Sheets	2023	2022
Assets limited as to use for capital projects & other long term purposes	$ 44,856	$ -
Other receivables	$ 326	$ 26,858
Other assets	$ -	$ 15,019

There were no conditional pledges at August 31, 2023 and 2022.

(in thousands of dollars)

6. Investments and Investments in University Managed Pools

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

	Fair Value	
	2023	2022
Short term investments and Investments:		
Restricted cash	$ 48,656	$ 59,794
Fixed income	777,229	744,330
Public equity	1,206,842	1,061,767
Other	28,299	33,712
Total	$ 2,061,026	$ 1,899,603

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

	Fair Value	
	2023	2022
Investments in University managed pools:		
Merged Pool	$ 2,580,250	$ 2,496,032
Expendable Funds Pool	7,249	8,056
Total	$ 2,587,499	$ 2,504,088

Investment Categories

- Restricted cash includes money market funds that are holding cash restricted by donors.
- Fixed income primarily includes investments that are actively traded fixed income government, government agency, corporate, municipal, and securitized securities or mutual funds and ETFs.
- Public equity investments include commingled funds, which invest in publicly traded equities.
- Other investments include private investments primarily in venture capital or growth equity.
- The MP is a unitized pool in which the fund holders purchase investments and withdraw funds based on a monthly share value. The MP is invested with the objective of maximizing long-term total return.

(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	
	2023	2022
Cash and cash equivalents	2%	2%
Fixed income	7%	7%
Public equities	22%	22%
Real estate	7%	6%
Natural resources	3%	4%
Absolute return	18%	18%
Private equities	41%	41%
Total	100%	100%

The following table summarizes the fair value and gross unrealized losses as of August 31, 2023 and 2022 aggregated by fixed income asset classes and the length of time that each category has been in a continuous unrealized loss position.

2023	Less than twelve months		Greater than twelve months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government and Agencies	$ -	$ -	$ 208,848	$ 7,418	$ 208,848	$ 7,418
Investment Grade Corporate	-	-	251,945	14,754	251,945	14,754
Securitized	-	-	86,348	5,127	86,348	5,127
Total Investment	**$ -**	**$ -**	**$ 547,141**	**$ 27,299**	**$ 547,141**	**$ 27,299**

2022	Less than twelve months		Greater than twelve months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Government and Agencies	$ 72,009	$ 3,069	$ 136,839	$ 4,349	$ 208,848	$ 7,418
Investment Grade Corporate	-	-	251,945	14,754	251,945	14,754
Securitized	-	-	86,348	5,127	86,348	5,127
Total Investment	**$ 72,009**	**$ 3,069**	**$ 475,132**	**$ 24,230**	**$ 547,141**	**$ 27,299**

7. Fair Value Measurements

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

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

SHC accounts for certain assets and liabilities at fair value. A fair value hierarchy for valuation inputs has been established. 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 is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are:

> Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.
>
> Level 2: Pricing inputs are based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swap instruments.
>
> Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities.

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

(in thousands of dollars)

7. Fair Value Measurements (continued)

The following tables summarize 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. In the following tables, cash and cash equivalents as of August 31, 2023 and 2022, includes restricted cash of $48,656 and $59,794, respectively. See Note 6 for further discussion.

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 660,248	$ -	$ -	$ 660,248
Fixed income	215,778	561,451	-	777,229
Public equities	1,206,842	-	-	1,206,842
Other	-	-	28,299	28,299
Total assets in the fair value hierarchy	$ 2,082,868	$ 561,451	$ 28,299	2,672,618
Investments measured at NAV practical expedient:				
Investments in University managed pools				2,587,499
Total assets at fair value				$ 5,260,117
Liabilities				
Interest rate swap instruments	$ -	$ 86,262	$ -	$ 86,262

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 596,597	$ -	$ -	$ 596,597
Fixed income	672,321	72,009	-	744,330
Public equities	1,061,767	-	-	1,061,767
Other	9,161	-	24,551	33,712
Total assets in the fair value hierarchy	$ 2,339,846	$ 72,009	$ 24,551	2,436,406
Investments measured at NAV practical expedient:				
Investments in University managed pools				2,504,088
Total assets at fair value				$ 4,940,494
Liabilities				
Interest rate swap instruments	$ -	$ 145,906	$ -	$ 145,906

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:

	2023	**2022**
Balance, beginning of year	$ 24,551	$ 21,141
Purchases	3,650	2,699
Sales	-	(1,600)
Realized and unrealized gain	98	2,311
Balance, end of year	$ 28,299	$ 24,551

(in thousands of dollars)

7. Fair Value Measurements (continued)

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2023 and 2022. Most of the SHC Level 3 investments are private investments, for which observable prices are not available. For each investment category and respective valuation technique, the range of the significant unobservable input is dependent on the nature and characteristics of the investment and may vary at each balance sheet date.

Investment Categories	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range Min	Range Max	Weighted Average	Impact to Valuation from an Increase in Input
2023							
Other	$ 28,299	Market comparables	Recent transactions	N/A	N/A	N/A	N/A
2022							
Other	$ 24,551	Market comparables	Recent transactions	N/A	N/A	N/A	N/A

8. Property and Equipment

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

	2023	2022
Land and improvements	$ 156,441	$ 155,325
Buildings and leasehold improvements	4,242,155	3,912,975
Equipment	1,828,646	1,720,456
	6,227,242	5,788,756
Less: Accumulated depreciation	(2,771,562)	(2,566,698)
Construction-in-progress	419,997	503,430
Property and equipment, net	$ 3,875,677	$ 3,725,488

Depreciation and amortization expense totaled $263,140 and $270,346 for the years ending August 31, 2023 and 2022, respectively.

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and depreciated over the estimated useful life of the asset. SHC did not capitalize any interest during the years ended August 31, 2023 and 2022.

Asset retirement cost are capitalized and recorded in buildings and leasehold improvements. SHC recorded current period accretion expense of $3,110 and $3,648 in the consolidated statements of operations and changes in net assets of the years ended August 31, 2023 and 2022, respectively. ARO liability of $114,410 and $111,300 is included in other long-term liabilities on the consolidated balance sheets as of August 31, 2023 and 2022, respectively.

(in thousands of dollars)

9. Debt Obligations

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

	Face Value	Fiscal Years of Maturity	Effective Interest Rates 2023 / 2022	Outstanding Principal 2023	2022
Fixed Rate Obligations					
Tax-Exempt					
2012 Series B Refunding Revenue Bonds	$ 68,320	2023	- / 2.57%	$ -	$ 7,430
2015 Series A Revenue Bonds	100,000	2052 - 2054	4.10%	100,000	100,000
2017 Series A Refunding Revenue Bonds	454,200	2024 - 2041	2.89% / 2.87%	437,440	447,075
2020 Series A Revenue Bonds	170,120	2050	2.70%	170,120	170,120
2021 Series A Revenue Bonds	157,715	2025	0.42%	157,715	157,715
Taxable					
2018 Series Bonds	500,000	2049	3.80%	500,000	500,000
2020 Series Bonds	300,000	2030	3.31%	300,000	300,000
2021 Series Bonds	365,100	2051	3.03%	365,100	365,100
Variable Rate Obligations					
Tax-Exempt					
2008 Series B Refunding Revenue Bonds	168,200	2042 - 2046	2.94% / 1.38%	168,200	168,200
Total principal amounts				2,198,575	2,215,640
Unamortized original issue premiums/discounts, net				84,607	93,349
Unamortized costs of issuance				(12,737)	(13,652)
Current portion of long-term debt				(13,475)	(17,065)
Debt subject to remarketing arrangements				(168,200)	(168,200)
Long-term debt, net of current portion				$ 2,088,770	$ 2,110,072

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.

As of August 31, 2023, payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a pledge against the revenues of SHC and secured under a master indenture of trust (“Master Indenture”) between SHC and the master trustee. SHC is currently the only member of the Obligated Group. None of the related entities listed in Note 1 is a member of the Obligated Group or is otherwise obligated with respect to debt obligations. The Master 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 Indenture is in the aggregate principal amounts of $2,198,575 and $2,215,640 as of August 31, 2023 and 2022, respectively.

SHC has a revolving line of credit facility, which has a maturity date of November 2024, for general corporate purposes. Drawdowns from the facility bear interest at the Bloomberg Short-Term Bank Yield Index (“BSBY”) plus an applicable spread. The size of the facility is $150,000, of which $50,000 is earmarked for the issuance of stand-by letters of credit. No amounts were outstanding as of August 31, 2023 or 2022.

SHC also has a $150,000 taxable commercial paper facility for general corporate purposes. No amount was outstanding as of August 31, 2023 and 2022.

In 2021, SHC advance refunded its 2012 Series A bonds through the issuance of $365,100 Series 2021 taxable bonds. All advance refunded bonds are considered extinguished. All outstanding 2012 Series A bonds were redeemed at par by the trustee on August 15, 2022.

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

(in thousands of dollars)

9. Debt Obligations (continued)

Principal Payments

As of August 31, 2023, scheduled principal payments on long-term debt are summarized below:

	Scheduled Maturities	Debt subject to Remarketing	Debt subject to Mandatory Tender	Total
2024	$ 13,475	$ 168,200	$ -	$ 181,675
2025	17,615	-	157,715	175,330
2026	18,480	-	-	18,480
2027	19,320	-	-	19,320
2028	20,260	-	-	20,260
Thereafter	1,783,510	-	-	1,783,510
Total	$ 1,872,660	$ 168,200	$ 157,715	$ 2,198,575

The scheduled principal payments above represent the annual payments required under debt repayment schedules. The current portion of long-term debt includes debt subject to mandatory tender coming due in the fiscal year 2024, if any, and payments scheduled to be made in fiscal year 2024. Debt subject to remarketing includes long-term debt obligations subject to short-term remarketing.

Interest Rate Swap Agreements

SHC originally entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from variable rate debt interest risk. Under the terms of the current agreements, SHC pays a fixed interest rate, determined at inception, and receives a variable rate on the underlying notional principal amount based on a percentage of the Secured Overnight Financing Rate (“SOFR”) plus an applicable 1-Month spread.

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, 2023:

Description	Current Notional	Maturity Date	Rate Paid	Rate Received
2003 Series B	$ 48,800	11/15/2036	3.365%	70% of compounded SOFR + 0.080%
2003 Series C	48,700	11/15/2036	3.365%	70% of compounded SOFR + 0.080%
2003 Series D	52,500	11/15/2036	3.365%	70% of compounded SOFR + 0.080%
2008 Series A-1	64,775	11/01/2040	3.691%	70% of compounded SOFR + 0.080%
2008 Series A-2	102,775	11/15/2051	3.999%	67% of compounded SOFR + 0.077%
2008 Series A-3	84,600	11/15/2051	3.902%	67% of compounded SOFR + 0.077%
2012 Series A	68,350	11/15/2045	4.081%	67% of compounded SOFR + 0.077%
2012 Series B	68,375	11/15/2045	4.077%	67% of compounded SOFR + 0.077%
2012 Series C	34,175	11/15/2045	4.008%	67% of compounded SOFR + 0.077%
Total	$ 573,050			

(in thousands of dollars)

9. Debt Obligations (continued)

Interest Rate Swap Agreements (continued)

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

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

	Fair Value		
Description	**2023**	**2022**	**Balance Sheet Location**
Fixed Payment Swaps	$ 86,262	$ 145,906	Swap liabilities

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

	Unrealized Gain		
Description	**2023**	**2022**	**Statement of Operations Location**
Fixed Payment Swaps	$ 59,644	$ 139,748	Swap interest and change in value of swap agreements

SHC has two swap agreements which require mutual posting of collateral by SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount. There was no cash collateral posted by SHC at August 31, 2023 and 2022.

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

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

Bond Interest Expense

Total bond interest expense was $74,100 and $71,939 for the years ended August 31, 2023 and 2022, respectively.

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 $180,297 and $152,602, SMP employer contributions totaling $5,879 and $6,501 and SHC Tri-Valley employer contributions totaling $6,748 and $5,719, for the years ended August 31, 2023 and 2022, 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, Stanford Health Care Staff Pension Plan ("Staff Pension Plan"). Benefits are based on years of service and the employee's compensation. Contributions to the Staff Pension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

SHC has adopted an amendment to terminate the Staff Pension Plan, effective as of March 31, 2023. The Staff Pension Plan participants will elect to receive a lump sum distribution (if eligible) or have their benefits transferred to a third-party annuity provider. This will relieve SHC from any further obligations under the Staff Pension Plan once its fully settled. Final true-up contributions in connection with the annuity contract purchase are expected to be made by January 31, 2024.

As of August 31, 2004, SHC assumed the pension liability of the LPCH employees. SHC received $87 and $124 in cash for the years ending August 31, 2023 and 2022, 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.

(in thousands of dollars)

10. Retirement Plans (continued)

The following tables present information on plan assets and obligations, costs, and actuarial assumptions for the Staff Pension Plan and the Postretirement Medical Benefit Plan for the years ended August 31, 2023 and 2022, respectively.

The tables for the Postretirement Medical Benefit Plan include SHC and LPCH employees. The total postretirement medical benefit liability was $115,588 and $117,266 as of August 31, 2023 and 2022, respectively. SHC recorded a liability within self-insurance reserves in the consolidated balance sheets of $85,337 and $86,276 as of August 31, 2023 and 2022, respectively, which represents the liability for SHC employees excluding LPCH employees.

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

	Staff Pension Plan		Postretirement Medical Benefit Plan Net of Medicare Part D Subsidy	
	2023	2022	2023	2022
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 164,594	$ 213,366	$ -	$ -
Actual return on plan assets	(1,112)	(37,941)	-	-
Employer contributions	-	-	5,642	6,244
Participants contributions	-	-	1,156	1,489
Benefits paid	(10,601)	(10,350)	(6,877)	(7,831)
Medicare subsidies received	-	-	79	98
Expenses paid	(1,491)	(481)	-	-
Fair value of plan assets at end of year	$ 151,390	$ 164,594	$ -	$ -
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 167,017	$ 213,136	$ 117,266	$ 116,620
Service cost	894	1,104	5,478	5,156
Interest cost	7,533	5,097	5,322	2,700
Participants contributions	-	-	1,156	1,489
Plan curtailments	(856)	-	-	-
Benefits paid	(10,601)	(10,350)	(6,877)	(7,831)
Medicare subsidies received	-	-	79	98
Expenses paid	(1,491)	(481)	-	-
Plan amendments	887	-	394	22,245
Actuarial gain	(5,829)	(41,489)	(7,230)	(23,211)
Benefit obligation at end of year	$ 157,554	$ 167,017	$ 115,588	$ 117,266
Amounts recognized in consolidated balance sheets:				
Plan assets minus benefit obligation	$ (6,164)	$ (2,423)	$ (115,588)	$ (117,266)
Net benefit liability recognized	$ (6,164)	$ (2,423)	$ (115,588)	$ (117,266)
Amounts recognized in consolidated balance sheets:				
Current liabilities	(6,164)	-	(8,365)	(7,567)
Noncurrent liabilities	-	(2,423)	(107,223)	(109,699)
Net benefit liability recognized	$ (6,164)	$ (2,423)	$ (115,588)	$ (117,266)
Amounts recognized in net assets without donor restrictions:				
Prior service cost	$ (887)	$ -	$ (33,987)	$ (37,146)
Net (loss) gain	(54,125)	(52,677)	26,554	20,517
Net assets without donor restrictions	$ (55,012)	$ (52,677)	$ (7,433)	$ (16,629)

(in thousands of dollars)

10. Retirement Plans (continued)

The accumulated benefit obligation for the Staff Pension Plan was $157,554 and $166,054 as of August 31, 2023 and 2022, respectively.

SHC's Staff Pension Plan net benefit obligation decreased during fiscal year 2023 due to an increase in the discount rate from 4.68% to 5.33%.

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

	Staff Pension Plan	
	2023	**2022**
Service cost	$ 894	$ 1,104
Periodic benefit expense	894	1,104
Non-operating:		
Interest cost	7,533	5,097
Expected return on plan assets	(7,370)	(7,627)
Amortization of net loss	349	2,027
Non-operating periodic benefit cost	512	(503)
Total net periodic benefit cost	$ 1,406	$ 601

	Postretirement Medical Benefit Plan	
	2023	**2022**
Service cost	$ 5,478	$ 5,156
Periodic benefit expense	5,478	5,156
Non-operating:		
Interest cost	5,322	2,700
Amortization of prior service cost	3,553	2,415
Amortization of net (gain) loss	(1,193)	167
Non-operating periodic benefit cost	7,682	5,282
Total net periodic benefit cost	$ 13,160	$ 10,438

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

	Staff Pension Plan		Postretirement Medical Benefit Plan	
	2023	**2022**	**2023**	**2022**
Net loss (gain) arising during period	$ 1,797	$ 4,079	$ (7,230)	$ (23,211)
Prior service cost	887	-	394	22,245
Amortizations				
Prior service cost	-	-	(3,553)	(2,415)
(Loss) gain	(349)	(2,027)	1,193	(167)
Total recognized in net assets without donor restrictions	$ 2,335	$ 2,052	$ (9,196)	$ (3,548)
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ 3,741	$ 2,653	$ 3,964	$ 6,890

(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		Postretirement Medical Benefit Plan	
	2023	2022	2023	2022
Weighted-average assumptions				
Discount rate	5.33%	4.68%	5.34%	4.69%
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		Postretirement Medical Benefit Plan	
	2023	2022	2023	2022
Weighted-average assumptions				
Discount rate	4.68%	2.46%	4.69%	2.39%
Expected return on plan assets	4.00%	4.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

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

To determine the accumulated postretirement benefit obligation as of August 31, 2023, a 6.08% for Post-65 and a 6.60% for Pre-65 annual rate of increase in the per capita cost of covered health care were assumed for calendar year 2023, declining gradually to 4.0% for both Post-65 and Pre-65, by 2047, and remaining at this rate thereafter.

Staff Pension Plan Assets

SHC's Staff Pension Plan weighted-average asset allocations as of the measurement date August 31, 2023 and 2022, respectively, by asset category are as follows:

Asset Category	2023	2022
Debt securities	100%	90%
Equity securities	0%	10%
Total	100%	100%

(in thousands of dollars)

10. Retirement Plans (continued)

Staff Pension 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:

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic debt securities	$ 151,390	$ -	$ -	$ 151,390
Domestic equity securities	-	-	-	-
Non-U.S. equity securities	-	-	-	-
Cash and cash equivalents	-	-	-	-
Total Plan assets at fair value	$ 151,390	$ -	$ -	$ 151,390

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

Staff Pension Plan Investments

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

Given the Staff Pension Plan's short time horizon, due to the upcoming planned termination, the focus of the asset allocation is on funded status stabilization. The Staff Pension Plan's asset allocation has been revised to reflect the termination status of the Staff Pension Plan. The Staff Pension Plan's assets are invested in cash and fixed income to minimize investment risk during the Staff Pension Plan termination as seen below.

Funded Ratio	**Return Seeking Assets (Equity)**	**Liability Hedging Assets (Fixed Income)**
Target	0%	100%
Allowable range	0%	100%

Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of the portfolio is prohibited. Accordingly, Staff Pension Plan assets are strategically allocated across fixed income (of various durations, credit quality, and ability to hedge pension liability), and cash. Except for fixed income investments explicitly guaranteed by the United States government, no single (i.e. non-pooled) investment security shall represent more than 5% of total Staff Pension 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 facilitate the Staff Pension Plan's upcoming termination. The investment policy prohibits the purchasing of securities on margin, executing short sales or purchasing or selling derivative securities for speculation or leverage.

(in thousands of dollars)

10. Retirement Plans (continued)

Staff Pension Plan Investments (continued)

Concentration of Risk
SHC manages a variety of risks, including market, credit, and liquidity risks, across Staff Pension 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 Staff Pension Plan assets unnecessarily. As of August 31, 2023, the Staff Pension Plan does not have a concentration of risk.

Expected Contributions
SHC expects to contribute $8,788 to the Staff Pension Plan for both SHC and LPCH employees during the fiscal year ending August 31, 2024. SHC expects to contribute $6,336 to its Postretirement Medical Benefit Plan for only SHC employees during the fiscal year ending August 31, 2024.

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 Benefit Plan	
	Staff Pension Plan	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2024	$ 161,398	$ 8,365	$ 8,561
2025	-	8,422	8,496
2026	-	8,719	8,784
2027	-	9,018	9,074
2028	-	9,329	9,378
2029 - 2033	-	51,405	51,559

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, 2021	$ 5,693,158	$ 5,663,080	$ 30,078
Excess of revenues over expenses	395,540	394,823	717
Noncontrolling capital contribution	7,864	-	7,864
Other changes in net assets without donor restrictions	(123,802)	(123,800)	(2)
Balance as of August 31, 2022	5,972,760	5,934,103	38,657
Excess of revenues over expenses	780,643	778,217	2,426
Noncontrolling capital distribution, net	(929)	-	(929)
Other changes in net assets without donor restrictions	(53,568)	(53,568)	-
Balance as of August 31, 2023	$ 6,698,906	$ 6,658,752	$ 40,154

(in thousands of dollars)

12. Net Assets With Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose:		
Pledges receivable	$ 45,182	$ 41,877
Other	42,662	48,550
Plant facilities	8,356	13,390
Total subject to expenditure for specified purpose	96,200	103,817
Subject to restriction in perpetuity:		
Accumulated appreciation	26,185	25,737
Endowment	15,544	15,544
Total subject to restriction in perpetuity	41,729	41,281
Total net assets with donor restrictions	$ 137,929	$ 145,098

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

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

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

(in thousands of dollars)

12. Net Assets With Donor Restrictions (continued)

Endowments (continued)

Changes in SHC's donor endowment for the years ended August 31, 2023 and 2022 are as follows:

	2023	2022
Endowment net assets, beginning of year	$ 41,281	$ 42,678
Investment return:		
Investment income	1,154	883
Mark to market adjustments	357	(2,067)
Total investment return	1,511	(1,184)
Contributions	-	171
Appropriations for expenditures	(1,063)	(384)
Endowment net assets, end of year	$ 41,729	$ 41,281

The portion of endowment funds that is required to be retained either by explicit donor stipulation or by California UPMIFA, as of August 31, 2023 and 2022 are as follows:

	2023	2022
Clinical services	$ 7,234	$ 7,325
Education	10,951	10,536
Indigent care and other	23,544	23,420
Total endowment classified as net assets with donor restrictions	$ 41,729	$ 41,281

All of SHC's endowment, totaling $41,729 and $41,281 at August 31, 2023 and 2022, respectively, are invested in the MP. The original funds are held in perpetuity and invested to generate income to support operating and strategic initiatives.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Investment Objectives

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

13. Related-Party Transactions

Transactions with the University and SoM

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

13. Related-Party Transactions (continued)

Transactions with the University and SoM (continued)

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 $1,167,068 and $1,064,642 for the years ended August 31, 2023 and 2022, 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 $151,873 and $116,200 for the years ended August 31, 2023 and 2022, respectively, and are reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC paid service fees to the University in the amount of $957 for both years ended August 31, 2023 and 2022. The service fees represent costs for the utilization of infrastructure owned by the University such as road improvements and parking garages and are reflected in the consolidated statements of operations and changes in net assets as other expense. Expected payments over the next 10 years total $9,254. Annual service fees range from approximately $957 for the year ending August 31, 2024 to $638 for the year ending August 31, 2033.

SHC also received payments for services provided to the University including primarily building maintenance, housekeeping, security, and information technology ("IT"). Costs incurred by SHC in providing these services are reflected in the respective categories in the consolidated statements of operations and changes in net assets. Reimbursement from the University totaled $104,035 and $96,715 for the years ended August 31, 2023 and 2022, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

In addition, SHC received certain grant monies for clinical trials from the University. Grant revenue totaled $10,012 and $8,210 for the years ended August 31, 2023 and 2022, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue in the consolidated statements of operations and changes in net assets.

During the year ended August 31, 2004, SHC paid $5,500 to the University. The amount represented a prepayment of a 51 year lease for property owned by the University. The short-term portion of $108 is included in prepaid expenses and other in the consolidated balance sheets as of August 31, 2023 and 2022. The remaining amount included in other assets in the consolidated balance sheets is $3,056 and $3,163 as of August 31, 2023 and 2022, respectively.

13. Related-Party Transactions (continued)

Transactions with the University and SoM (continued)

For the years ended August 31, 2023 and 2022, SHC transferred $89,645 and $112,361, respectively, to the University, which are included in other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets. 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.

SHC also paid and received equity transfers of $258 and $3,128 during the years ended August 31, 2023 and 2022, 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.

SHC has made long term advances to the University for a housing assistance program. The total outstanding loans were $186,726 and $149,627 as of August 31, 2023 and 2022, respectively, which are reflected on the consolidated balance sheets as due from Stanford University housing loans.

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, 2023 and 2022, SHC had an interest rate swap liability to Goldman Sachs of $23,398 and $38,582, respectively, and there is no posted collateral for the years ended August 31, 2023 and 2022, for the same interest rate swap agreement. Additionally, SHC made net swap payments to Goldman Sachs of $1,180 and $3,769 for the years ended August 31, 2023 and 2022, 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 $46,990 and $41,688 for the years ended August 31, 2023 and 2022, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

SHC provides various services to LPCH. These services include operating room, cardiac catheterization, interventional radiology, radiation oncology and laboratory. The cost of these services is charged back to LPCH based on a percentage of charges intended to approximate cost or a cost per procedure. Costs of these purchased services are reflected in the appropriate category in the consolidated statements of operations and changes in net assets. Reimbursement of purchased services from LPCH totaled $44,013 and $44,258 for the years ended August 31, 2023 and 2022, respectively, and is reflected in the consolidated statements of operations and changes in net assets as net patient service revenue.

Other services provided by SHC include services provided by interns and residents, building maintenance, IT and utilities. Reimbursement of these services totaled $54,556 and $46,660 for the years ended August 31, 2023 and 2022, respectively, and is reflected in various categories in the consolidated statements of operations and changes in net assets.

During the years ended August 31, 2023 and 2022, SHC received $1,783 and $0 from LPCH which represented reimbursement for a capital equipment.

(in thousands of dollars)

14. Leases

Leasing Activities-Lessee

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

For the years ended August 31, 2023 and 2022, the components of SHC lease expenses and the classification of such expenses in SHC consolidated statements of operations and changes in net assets are as follows:

Components of Lease Cost	Classification on Consolidated Statements of Operations and Changes in Net Assets	2023	2022
Operating lease cost	Other	$ 82,782	$ 78,618
Short term lease cost	Other	11,696	10,624
Variable lease cost	Other	11,338	10,936
Finance lease cost:			
Amortization of leased assets	Depreciation and amortization	12	70
Interest on lease liabilities	Interest	-	1
Sublease income	Other revenue	(3,949)	(2,801)
Total		$ 101,879	$ 97,448

For the years ended August 31, 2023 and 2022, the supplemental cash flow information related to leases are as follows:

	2023	2022
Operating cash flows from operating leases	$ 84,650	$ 83,180
Operating cash flows from finance leases	-	1
Financing cash flows from finance leases	12	76
Total	$ 84,662	$ 83,257

For the years ended August 31, 2023 and 2022, the right-of-use assets obtained in exchange for new lease obligations are as follows:

	2023	2022
Operating leases	$ 143,898	$ 27,892

For the years ended August 31, 2023 and 2022, the weighted-average lease terms and discount rates for operating and finance leases are as follows:

Weighted-average remaining lease term:	2023	2022
Operating leases	6.17 years	5.57 years
Finance leases	N/A	0.17 years

Weighted-average discount rate:	2023	2022
Operating leases	3.68%	2.14%
Finance leases	N/A	1.79%

(in thousands of dollars)

14. Leases (continued)

Leasing Activities-Lessee (continued)
The following table includes the future maturities of lease payments for operating leases for periods subsequent to August 31, 2023:

Year Ending August 31,	Operating
2024	$ 80,028
2025	66,158
2026	55,650
2027	47,680
2028	36,536
Thereafter	86,015
Total lease payments	372,067
Less interest	(42,055)
Total lease liabilities	330,012
Less current lease liabilities	(69,335)
Total lease liabilities, net of current portion	$ 260,677

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, 2023:

Year Ending August 31,	
2024	$ 5,092
2025	3,137
2026	2,316
2027	1,936
2028	1,275
Thereafter	8,504
Total	$ 22,260

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 $28,916, 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, 2023.

As of August 31, 2023, SHC had contractual obligations of approximately $143,456 primarily related to hospital renovations and other capital projects and approximately $665,671 to support SHC's operations, such as maintenance, food services, software subscription related services, valet services and other purchased services.

15. Commitments and Contingencies (continued)

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

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

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

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

15. Commitments and Contingencies (continued)

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards for structural performance. Facilities classified by the State of California as non-compliant in the event of an earthquake must be retrofitted, replaced or removed from acute care service by applicable deadlines between 2022 and 2030. SHC remains in compliance with all applicable deadlines.

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

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

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

Over the course of the next several years, additional renovations are planned for the E Pod and F Pod patient care units, and new construction of 57 beds in extension towers. These improvements will enable the complete relocation of inpatient units that remain in the 1959-era portion of the hospital and fulfill the seismic safety mandate to have all inpatient beds located in compliant structures. As of August 31, 2023, $438 million was recorded to property and equipment of which $172 million was recorded to construction in progress and $266 million was capitalized to property and equipment. Estimated cost of the 300P Renewal program is approximately $1.6 billion.

15. Commitments and Contingencies (continued)

Coronavirus Disease ("COVID-19")

In response to the economic impact of COVID-19, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was enacted by Congress and was subsequently signed into law on March 27, 2020. The CARES Act included a variety of economic assistance provisions for businesses and individuals. SHC suspended non-emergent or non-critical surgeries, procedures and appointments beginning in mid-March 2020 through early May 2020 and various times in fiscal year 2021 due to COVID-19. The COVID-19 pandemic continued to cause major disruptions to our nation's healthcare systems. In fiscal year 2021 and fiscal year 2022 and to a much lesser extent in fiscal year 2023, the emergence of COVID-19 variants and related surges in COVID-19 cases contributed to certain setbacks to the global economy reopening and triggered reinstatement of healthcare restrictions. The resulting financial impacts to SHC came in the form of significant lost revenue and additional expense. SHC has received various forms of federal relief described below to partially offset the aforementioned losses.

Under certain provisions in the CARES Act, other provider relief funding, and Federal Emergency Management Agency ("FEMA"), SHC recognized benefits totaling $32 million and $215 million in its consolidated statement of operations for the years ended August 31, 2023 and 2022, respectively. The $32 million benefit is comprised of funding from FEMA, all of which is reported in operating revenue. The $215 million benefit is comprised of $203 million in Provider Relief Funds and $12 million of funding from FEMA, all of which are reported in operating revenue.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of August 31, 2023, deferred payments are $0. As of August 31, 2022, deferred payments are $21 million, all of which are current and are reported as accrued salaries and benefits on the accompanying consolidated balance sheet as of that date. SHC recorded $18.5 million of additional FEMA deferred revenue on the accompanying consolidated balance sheets as of August 31, 2023 and 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, 2023 and 2022. CARES Act provider relief funds are subject to future audit adjustments based on compliance audits and potential changes to statutes. The Coronavirus Public Health Emergency ended on May 11, 2023.

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, 2023.

(in thousands of dollars)

16. Functional Expenses

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

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

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

	2023			
	Patient services	Management and general	Fundraising	Total
Salaries and benefits	$ 3,307,740	$ 266,724	$ 1,335	$ 3,575,799
Professional services	45,363	30,176	-	75,539
Supplies	1,160,947	10,228	-	1,171,175
Purchased services	1,660,036	81,987	15,498	1,757,521
Depreciation and amortization	244,834	18,306	-	263,140
Interest	74,100	-	-	74,100
Other	418,137	121,770	-	539,907
Expense recoveries to (from) related parties	452	(793)	-	(341)
Total operating expenses	6,911,609	528,398	16,833	7,456,840
Non operating expenses	10,457	-	-	10,457
Total	$ 6,922,066	$ 528,398	$ 16,833	$ 7,467,297

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

17. Subsequent Events

SHC has evaluated subsequent events occurring between the end of the most recent fiscal year and December 6, 2023, the date the consolidated financial statements were issued.

In September 2023, CHFFA, on behalf of SHC, issued fixed rate 2023 Series A Revenue Bonds ("2023 Series A") in the aggregate principal amount of $260,545 plus an original issue premium of $39,460. Proceeds of the 2023 Series A bonds were used to reimburse expenditures related to the re-design, remodel, and renovation of SHC's original hospital facility (300P Renewal Program). Additionally, in September 2023, CHFFA, on behalf of SHC, established a $200,000 tax-exempt commercial paper facility to be used for bridge financing of certain capital expenditures.

With the 2023 financing, SHC received the required consents to effectuate all amendments to its existing 1st amended and restated Master Indenture. Under the 2nd amended and restated Master Indenture, payments of principal and interest on all SHC debt obligations (taxable and tax-exempt) are collateralized by a gross receivables pledge.

In November 2023, SHC terminated four of its nine outstanding swaps at a termination cost of approximately $18.5 million. The terminated swaps had a notional amount of $234.6 million and were not classified as hedging instruments.

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Stanford Health Care
Consolidating Balance Sheet
August 31, 2023
(in thousands of dollars)

	FY 2023										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	ERTS	Eliminations / Consolidating Entries	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	$ 470,372	$ 36,550	$ 419	$ -	$ 61,979	$ 9,373	$ 15,826	$ -	$ 17,073	$ -	$ 611,592
Short term investments	73,957	-	-	-	-	-	-	-	-	-	73,957
Patient accounts receivable, net	959,194	27,165	54,066	-	-	2,361	-	-	-	-	1,042,786
Other receivables	86,139	18,998	8,141	3,602	14,182	2,380	7,887	324	4,191	(3,997)	141,847
Inventories	97,265	1,172	10,502	2,762	-	-	-	-	25	-	111,726
Prepaid expenses and other	102,488	15,333	9,913	1,178	310	632	1,256	109	46	(63)	131,202
Due from related parties	2,213	-	-	-	44	-	-	-	-	(2,257)	-
Due from Stanford University	-	-	141	2,895	-	-	-	-	-	(3,036)	-
Due from Lucile Salter Packard Children's Hospital at Stanford	17,064	-	-	582	-	-	-	-	-	(331)	17,315
Total current assets	**1,808,692**	**99,218**	**83,182**	**11,019**	**76,515**	**14,746**	**24,969**	**433**	**21,335**	**(9,684)**	**2,130,425**
Investments	1,913,670	-	6,013	-	59,847	-	7,539	-	-	-	1,987,069
Investments at equity	227,720	-	7,353	-	-	-	-	-	-	-	235,073
Investments in University managed pools	2,516,295	-	-	-	71,204	-	-	-	-	-	2,587,499
Assets limited as to use for capital projects & other long-term purposes	44,856	-	-	-	-	-	-	-	-	-	44,856
Property and equipment, net	3,529,395	29,745	298,419	3,736	-	3,819	-	-	10,563	-	3,875,677
Right of use lease assets	276,576	49,627	25,824	5,276	-	-	-	264	1,652	(41,069)	318,150
Due from Stanford University - housing loans	186,726	-	-	-	-	-	-	-	-	-	186,726
Other assets	93,693	1,476	3,493	-	-	-	384	17	-	(47,927)	51,136
Investments in related entities	740,522	5,137	-	-	-	-	-	-	-	(745,659)	-
Total assets	**$ 11,338,145**	**$ 185,203**	**$ 424,284**	**$ 20,031**	**$ 207,566**	**$ 18,565**	**$ 32,892**	**$ 714**	**$ 33,550**	**$ (844,339)**	**$ 11,416,611**
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued liabilities	$ 557,780	$ 24,885	$ 32,698	$ 4,564	$ 597	$ 194	$ 2,931	$ 58	$ 1,479	$ (66)	$ 625,120
Accrued salaries and related benefits	406,014	38,754	22,720	-	-	-	-	94	-	-	467,582
Due to related parties	-	-	-	-	-	243	44	-	1,970	(2,257)	-
Due to Stanford University	238,988	-	-	2,826	-	-	-	-	-	(3,036)	238,778
Due to Lucile Salter Packard Children's Hospital at Stanford	-	-	331	-	-	-	-	-	-	(331)	-
Third-party payor settlements	69,482	-	(358)	-	-	-	-	-	-	-	69,124
Current portion of long-term debt	13,475	-	3,994	-	-	-	-	-	-	(3,994)	13,475
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200
Operating lease liabilities, current	59,019	11,792	5,509	3,641	-	-	-	280	338	(11,244)	69,335
Self-insurance reserves and other	86,906	2,844	4,287	13	22,748	-	-	-	-	-	116,798
Total current liabilities	**1,599,864**	**78,275**	**69,181**	**11,044**	**23,345**	**437**	**2,975**	**432**	**3,787**	**(20,928)**	**1,768,412**
Self-insurance reserves and other, net of current portion	130,730	-	4,782	87	79,260	-	21,334	-	-	-	236,193
Swap liabilities	86,262	-	-	-	-	-	-	-	-	-	86,262
Operating lease liabilities, net of current portion	228,314	39,101	20,951	1,910	-	-	-	-	1,348	(30,947)	260,677
Other long-term liabilities	134,645	120	51,628	(126)	-	-	-	-	-	(46,805)	139,462
Long-term debt, net of current portion	2,088,770	-	-	-	-	-	-	-	-	-	2,088,770
Total liabilities	**4,268,585**	**117,496**	**146,542**	**12,915**	**102,605**	**437**	**24,309**	**432**	**5,135**	**(98,680)**	**4,579,776**
Net assets:											
Without donor restrictions:											
Attributable to Stanford Health Care	6,936,726	67,707	272,585	7,116	87,430	10,877	5,137	282	16,489	(745,597)	6,658,752
Noncontrolling interests	-	-	-	-	17,531	7,251	3,446	-	11,926	-	40,154
Total without donor restrictions	**6,936,726**	**67,707**	**272,585**	**7,116**	**104,961**	**18,128**	**8,583**	**282**	**28,415**	**(745,597)**	**6,698,906**
With donor restrictions	132,834	-	5,157	-	-	-	-	-	-	(62)	137,929
Total net assets	**7,069,560**	**67,707**	**277,742**	**7,116**	**104,961**	**18,128**	**8,583**	**282**	**28,415**	**(745,659)**	**6,836,835**
Total liabilities and net assets	**$ 11,338,145**	**$ 185,203**	**$ 424,284**	**$ 20,031**	**$ 207,566**	**$ 18,565**	**$ 32,892**	**$ 714**	**$ 33,550**	**$ (844,339)**	**$ 11,416,611**

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

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

	FY2022										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	ERTS	Eliminations / Consolidating Entries	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	$ 427,450	$ 35,120	$ 442	$ -	$ 35,288	$ 12,735	$ 10,869	$ -	$ 14,899	$ -	$ 536,803
Short term investments	72,009	-	-	-	-	-	-	-	-	-	72,009
Patient accounts receivables, net	942,830	27,493	50,605	-	-	2,640	-	-	-	-	1,023,568
Other receivables	60,927	14,620	4,374	2,452	23,877	736	8,410	206	3,598	(3,997)	115,203
Inventories	96,740	782	8,401	1,801	-	-	-	-	26	-	107,750
Prepaid expenses and other	109,596	15,202	9,157	365	277	492	1,030	90	43	(36)	136,216
Due from related parties	5,303	6,978	2,342	61,125	108	-	-	18	-	(75,874)	-
Total current assets	**1,714,855**	**100,195**	**75,321**	**65,743**	**59,550**	**16,603**	**20,309**	**314**	**18,566**	**(79,907)**	**1,991,549**
Investments	1,755,069	-	5,805	-	59,255	-	7,465	-	-	-	1,827,594
Investments at equity	159,427	-	7,262	-	-	-	-	-	-	-	166,689
Investments in University managed pools	2,435,606	-	-	-	68,482	-	-	-	-	-	2,504,088
Property and equipment, net	3,432,558	31,686	249,959	3,950	-	3,590	-	12	3,733	-	3,725,488
Right of use lease assets	202,821	47,479	30,416	8,111	-	184	-	523	1,991	(43,953)	247,572
Due from Stanford University - housing loans	149,627	-	-	-	-	-	-	-	-	-	149,627
Other assets	98,434	1,201	3,537	-	-	-	303	17	-	(51,921)	51,571
Investments in related entities	670,278	3,421	-	-	-	-	-	-	-	(673,699)	-
Total assets	**$ 10,618,675**	**$ 183,982**	**$ 372,300**	**$ 77,804**	**$ 187,287**	**$ 20,377**	**$ 28,077**	**$ 866**	**$ 24,290**	**$ (849,480)**	**$ 10,664,178**
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued liabilities	$ 555,783	$ 25,607	$ 34,908	$ 2,810	$ 725	$ 968	$ 2,413	$ 53	$ 4	$ (39)	$ 623,232
Accrued salaries and related benefits	414,167	46,314	21,753	(234)	-	-	-	73	-	-	482,073
Due to related parties	276,157	-	10,675	2,271	875	307	108	3,653	469	(75,874)	218,641
Third-party payor settlements	63,361	-	(37)	-	-	-	-	-	-	-	63,324
Current portion of long-term debt	17,065	-	3,994	-	-	-	-	-	-	(3,994)	17,065
Debt subject to remarketing arrangements	168,200	-	-	-	-	-	-	-	-	-	168,200
Operating lease liabilities, current	60,177	13,883	7,309	3,360	-	185	-	267	315	(11,754)	73,742
Self-insurance reserves and other	61,922	2,549	2,476	269	30,184	-	-	-	-	-	97,400
Total current liabilities	**1,616,832**	**88,353**	**81,078**	**8,476**	**31,784**	**1,460**	**2,521**	**4,046**	**788**	**(91,661)**	**1,743,677**
Self-insurance reserves and other, net of current portion	135,802	-	4,465	92	62,467	-	19,052	-	-	-	221,878
Swap liabilities	145,906	-	-	-	-	-	-	-	-	-	145,906
Operating lease liabilities, net of current portion	154,863	35,352	23,877	5,098	-	-	-	280	1,686	(33,564)	187,592
Other long-term liabilities	131,510	218	56,093	(70)	-	-	-	-	-	(50,556)	137,195
Long-term debt, net of current portion	2,110,072	-	-	-	-	-	-	-	-	-	2,110,072
Total liabilities	**4,294,985**	**123,923**	**165,513**	**13,596**	**94,251**	**1,460**	**21,573**	**4,326**	**2,474**	**(175,781)**	**4,546,320**
Net assets:											
Without donor restrictions:											
Attributable to Stanford Health Care	6,182,657	60,059	202,660	64,208	74,135	11,350	3,421	(3,460)	12,710	(673,637)	5,934,103
Noncontrolling interests	-	-	-	-	18,901	7,567	3,083	-	9,106	-	38,657
Total without donor restrictions	**6,182,657**	**60,059**	**202,660**	**64,208**	**93,036**	**18,917**	**6,504**	**(3,460)**	**21,816**	**(673,637)**	**5,972,760**
With donor restrictions	141,033	-	4,127	-	-	-	-	-	-	(62)	145,098
Total net assets	**6,323,690**	**60,059**	**206,787**	**64,208**	**93,036**	**18,917**	**6,504**	**(3,460)**	**21,816**	**(673,699)**	**6,117,858**
Total liabilities and net assets	**$ 10,618,675**	**$ 183,982**	**$ 372,300**	**$ 77,804**	**$ 187,287**	**$ 20,377**	**$ 28,077**	**$ 866**	**$ 24,290**	**$ (849,480)**	**$ 10,664,178**

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

Stanford Health Care
Consolidating Statement of Operations and Changes in Net Assets
Year Ended August 31, 2023
(in thousands of dollars)

	FY 2023										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	ERTS	Eliminations / Consolidating Entries	Consolidated
Operating revenues and other support:											
Net patient service revenue	$ 6,760,409	$ 300,614	$ 467,587	$ -	$ -	$ 9,787	$ -	$ -	$ -	$ (17,362)	$ 7,521,035
Premium revenue	838	64,548	-	-	-	-	-	-	-	-	65,386
Grants - COVID-19 and FEMA	28,831	760	2,440	-	-	-	-	-	-	-	32,031
Other revenue	159,138	33,516	9,098	98,538	44,389	53	4,496	2,172	13,756	(123,115)	242,041
Net assets released from restrictions used for operations	11,112	-	71	30	-	-	-	-	-	-	11,213
Total operating revenues and other support	**6,960,328**	**399,438**	**479,196**	**98,568**	**44,389**	**9,840**	**4,496**	**2,172**	**13,756**	**(140,477)**	**7,871,706**
Operating expenses:											
Salaries and benefits	3,081,036	156,354	281,135	44,711	4,969	2,719	-	3,555	1,469	(149)	3,575,799
Professional services	64,878	7,441	1,628	214	925	1,246	641	73	-	(1,507)	75,539
Supplies	1,057,243	60,883	67,725	20,652	5	140	-	9	36	(35,518)	1,171,175
Purchased services	1,569,071	243,569	41,361	5,029	98	1,212	-	42	2,553	(105,414)	1,757,521
Depreciation and amortization	224,363	8,947	25,821	1,484	-	655	-	12	1,858	-	263,140
Interest	74,100	-	1,817	-	-	-	-	-	-	(1,817)	74,100
Other	442,584	34,862	46,072	11,294	31,163	1,586	3,802	482	1,807	(33,745)	539,907
Expense recoveries from related parties	(341)	(35,210)	-	-	-	-	-	(801)	-	36,011	(341)
Total operating expenses	**6,512,934**	**476,846**	**465,559**	**83,384**	**37,160**	**7,558**	**4,443**	**3,372**	**7,723**	**(142,139)**	**7,456,840**
Income (loss) from operations	**447,394**	**(77,408)**	**13,637**	**15,184**	**7,229**	**2,282**	**53**	**(1,200)**	**6,033**	**1,662**	**414,866**
Interest and investment income	60,425	1,680	96	-	2,006	-	495	-	266	(1,817)	63,151
Earnings on equity method investments	42,655	-	325	-	-	-	-	-	-	-	42,980
Change in value of University managed pools and other	208,792	(45)	-	-	1,743	-	(75)	-	-	45	210,460
Swap interest and change in value of swap agreements	55,155	-	-	-	-	-	-	-	-	-	55,155
Other components of net periodic benefit costs	(5,969)	-	-	-	-	-	-	-	-	-	(5,969)
Excess (deficiency) of revenues over expenses	**808,452**	**(75,773)**	**14,058**	**15,184**	**10,978**	**2,282**	**473**	**(1,200)**	**6,299**	**(110)**	**780,643**
Other changes in net assets without donor restrictions:											
Transfers to Stanford University	(89,645)	-	-	-	-	-	-	-	-	-	(89,645)
Transfers from Lucile Salter Packard Children's Hospital at Stanford	1,783	-	-	-	-	-	-	-	-	-	1,783
Change in net unrealized gain on investments	9,974	-	-	-	-	-	-	-	-	-	9,974
Net assets released from restrictions used for:											
Purchase of property and equipment	19,467	-	814	-	-	-	-	-	-	-	20,281
Change in pension and postretirement liability	4,039	-	-	-	-	-	-	-	-	-	4,039
Noncontrolling capital contributions (distributions), net	-	83,421	55,052	(72,276)	947	(3,071)	1,606	4,942	300	(71,850)	(929)
Increase (decrease) in net assets without donor restrictions	**754,070**	**7,648**	**69,924**	**(57,092)**	**11,925**	**(789)**	**2,079**	**3,742**	**6,599**	**(71,960)**	**726,146**
Changes in net assets with donor restrictions:											
Transfers to Stanford University	(258)	-	-	-	-	-	-	-	-	-	(258)
Transfers (to) from related entities	(1,406)	-	1,376	30	-	-	-	-	-	-	-
Contributions and other	20,534	-	350	-	-	-	-	-	-	-	20,884
Investment income	1,450	-	190	-	-	-	-	-	-	-	1,640
Gains on University managed pools	2,059	-	-	-	-	-	-	-	-	-	2,059
Net assets released from restrictions used for:											
Operations	(11,112)	-	(71)	(30)	-	-	-	-	-	-	(11,213)
Purchase of property and equipment	(19,467)	-	(814)	-	-	-	-	-	-	-	(20,281)
(Decrease) increase in net assets with donor restrictions	**(8,200)**	**-**	**1,031**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,169)**
Increase (decrease) in net assets	745,870	7,648	70,955	(57,092)	11,925	(789)	2,079	3,742	6,599	(71,960)	718,977
Net assets, beginning of year	6,323,690	60,059	206,787	64,208	93,036	18,917	6,504	(3,460)	21,816	(673,699)	6,117,858
Net assets, end of year	**$ 7,069,560**	**$ 67,707**	**$ 277,742**	**$ 7,116**	**$ 104,961**	**$ 18,128**	**$ 8,583**	**$ 282**	**$ 28,415**	**$ (745,659)**	**$ 6,836,835**

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

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

	FY2022										
	SHC	SMP	SHC Tri-Valley	SBC	SHI	SEROC	PEAC	Care Counsel	ERTS	Eliminations / Consolidating Entries	Consolidated
Operating revenues and other support:											
Net patient service revenue	$ 6,212,806	$ 303,015	$ 413,718	$ -	$ -	$ 10,202	$ -	$ -	$ -	$ (17,273)	$ 6,922,468
Premium revenue	3,235	72,075	-	-	-	-	-	-	-	-	75,310
Grants - COVID-19 and FEMA	208,439	1,873	5,004	-	-	-	-	-	-	-	215,316
Other revenue	139,615	28,739	3,910	85,178	35,825	119	3,459	1,880	5,474	(111,846)	192,353
Net assets released from restrictions used for operations	6,985	-	35	-	-	-	-	-	-	-	7,020
Total operating revenues and other support	**6,571,080**	**405,702**	**422,667**	**85,178**	**35,825**	**10,321**	**3,459**	**1,880**	**5,474**	**(129,119)**	**7,412,467**
Operating expenses:											
Salaries and benefits	2,900,799	148,145	245,379	39,325	4,881	2,773	-	3,350	411	(143)	3,344,920
Professional services	60,697	9,514	3,822	22	996	1,241	590	57	-	(1,500)	75,439
Supplies	913,056	58,178	56,401	14,767	-	80	-	6	20	(32,904)	1,009,604
Purchased services	1,392,889	259,808	33,148	4,499	169	1,104	-	32	1,451	(94,260)	1,598,840
Depreciation and amortization	239,143	9,148	20,001	1,371	-	611	-	18	54	-	270,346
Interest	71,939	1	1,876	-	-	-	-	-	-	(1,876)	71,940
Other	426,332	36,583	49,077	10,124	21,369	1,571	2,910	514	433	(26,216)	522,697
Expense recoveries to (from) related parties	588	(25,080)	-	-	-	-	-	(691)	-	25,771	588
Total operating expenses	**6,005,443**	**496,297**	**409,704**	**70,108**	**27,415**	**7,380**	**3,500**	**3,286**	**2,369**	**(131,128)**	**6,894,374**
Income (loss) from operations	**565,637**	**(90,595)**	**12,963**	**15,070**	**8,410**	**2,941**	**(41)**	**(1,406)**	**3,105**	**2,009**	**518,093**
Interest and investment income	100,173	227	96	-	1,174	-	130	-	-	(1,876)	99,924
Earnings on equity method investments	35,895	-	293	-	-	-	-	-	-	-	36,188
Change in value of University managed pools and other	(368,228)	(371)	-	-	(6,939)	-	(579)	-	-	371	(375,746)
Swap interest and change in value of swap agreements	120,324	-	-	-	-	-	-	-	-	-	120,324
Other components of net periodic benefit costs	(3,243)	-	-	-	-	-	-	-	-	-	(3,243)
Excess (deficiency) of revenues over expenses	**450,558**	**(90,739)**	**13,352**	**15,070**	**2,645**	**2,941**	**(490)**	**(1,406)**	**3,105**	**504**	**395,540**
Other changes in net assets without donor restrictions:											
Transfers to Stanford University	(112,361)	-	-	-	-	-	-	-	-	-	(112,361)
Change in net unrealized (loss) gain on investments	(24,894)	1	-	-	-	-	-	-	-	(1)	(24,894)
Net assets released from restrictions used for:											
Purchase of property and equipment	9,700	-	2,059	-	-	-	-	-	-	-	11,759
Change in pension and postretirement liability	1,694	-	-	-	-	-	-	-	-	-	1,694
Noncontrolling capital contribution (distribution), net	-	85,794	-	-	-	-	(133)	-	18,711	(96,508)	7,864
Increase (decrease) in net assets without donor restrictions	**324,697**	**(4,944)**	**15,411**	**15,070**	**2,645**	**2,941**	**(623)**	**(1,406)**	**21,816**	**(96,005)**	**279,602**
Changes in net assets with donor restrictions:											
Transfers from Stanford University	3,128	-	-	-	-	-	-	-	-	-	3,128
Contributions and other	8,869	-	309	-	-	-	-	-	-	-	9,178
Investment income	1,037	-	-	-	-	-	-	-	-	-	1,037
Losses on University managed pools	(799)	-	-	-	-	-	-	-	-	-	(799)
Net assets released from restrictions used for:											
Operations	(6,985)	-	(35)	-	-	-	-	-	-	-	(7,020)
Purchase of property and equipment	(9,700)	-	(2,059)	-	-	-	-	-	-	-	(11,759)
Decrease in net assets with donor restrictions	**(4,450)**	**-**	**(1,785)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,235)**
Increase (decrease) in net assets	320,247	(4,944)	13,626	15,070	2,645	2,941	(623)	(1,406)	21,816	(96,005)	273,367
Net assets, beginning of year	6,003,443	65,003	193,161	49,138	90,391	15,976	7,127	(2,054)	-	(577,694)	5,844,491
Net assets, end of year	**$ 6,323,690**	**$ 60,059**	**$ 206,787**	**$ 64,208**	**$ 93,036**	**$ 18,917**	**$ 6,504**	**$ (3,460)**	**$ 21,816**	**$ (673,699)**	**$ 6,117,858**

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

Accompanying Consolidating Information

The accompanying consolidating information presents Consolidating Balance Sheets as of August 31, 2023 and 2022 and Consolidating Statements of Operations and Changes in Net Assets for the years then ended.

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

Revision

As discussed in Note 2 to the consolidated financial statements, in fiscal year 2023, SHC identified an incorrect classification related to long-term advances made to Stanford University. Accordingly, the SHC balance sheet column of the fiscal year 2022 consolidating financial information has been revised to correct this presentation. The effects of the adjustments on the consolidated balance sheet are described in Note 2. SHC has evaluated the quantitative and qualitative impact of this misclassification and has concluded it was not material to the prior year consolidating financial statements.