Stanford

Annual Financial Report

August 31, 2021 and 2020

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COVER: Photo by Andrew Brodhead, 2021

Resilience and Commitment

President Marc Tessier-Lavigne

"I'm proud of how our community has embraced a spirit of collective responsibility to keep one another safe and to make our world better over the last year."

Throughout fiscal year 2021, Stanford navigated the challenges and unprecedented pressures stemming from the COVID-19 pandemic—a crisis that required a reimagining of the university's operations from the ground up. During this time, we focused on three overarching goals: sustaining our mission of research, education, and health care; contributing to the global responses to the pandemic and racial injustice; and supporting our Stanford community.

Sustaining our university's mission required the tireless efforts of our entire community, along with the swift re-deployment of resources and funding to support these efforts. Our faculty adapted courses into creative online formats to support students from a distance. Staff members supported our research restart and launched our testing protocols, all while continuing the many other vital day-to-day operations of the university. Our students, both remote and on-campus, showed remarkable flexibility in engaging with the new modes of learning, and found new ways to connect with one another. At the end of a difficult year, we were delighted to celebrate an in-person Commencement ceremony for our graduating seniors, advanced degree recipients, and their loved ones.

As many of our operations moved online, we extended our reach and broadened access to Stanford's resources in health care, education, research, the arts, and more. Telemedicine visits have accelerated dramatically: before the pandemic, Stanford Medicine provided 2,800 telehealth consults a month; by the peak of the pandemic, it was providing 60,000 a month. Stanford Arts moved content and resources online, making access to the arts broadly available at a time when people in our community and beyond needed the meaning and comfort that the arts can provide.

Second, even as we worked to sustain and broaden the reach of our mission, we focused on contributing to the global recovery. At Stanford Medicine, clinicians, researchers, and staff have worked tirelessly to care for patients, study the disease, develop treatments and therapies, and provide testing and vaccination for our community. Outside of medicine, researchers in the humanities, social sciences, and other fields worked to improve remote education, reduce the spread of COVID-19 among incarcerated populations, and understand how pandemics exacerbate disparities and inequities.

Over the past year, we've taken meaningful steps toward our goals of advancing a more just society through education and research and countering racism within our own community. This work is led through our Inclusion, Diversity, Equity, and Access in a Learning Environment (IDEAL) initiative, which is the focal point of our efforts to achieve change. These efforts have included selecting our first cohort of IDEAL Provostial Fellows—a group of promising young scholars in race and ethnicity—and establishing a Community Board on Public Safety to ensure that the university's public safety policies and practices are consistent with our values.

In April, Stanford also became the first U.S. college or university to issue bonds carrying dual climate and sustainability designations. The bonds are rooted in our commitment to promoting access and inclusion and tackling environmental challenges. They are helping finance projects that support the university's diversity and equity goals, improve access to healthcare and housing, and achieve our sustainability goals.

Providing support for our Stanford community has been a critical priority this year. The pandemic has deeply affected all of us, but it has hit some members of our community harder than others. At a university level, we've taken steps to mitigate these disparities by extending the tenure clock, adding a post-pandemic research quarter for junior faculty, and expanding leave time for caregiving and wellness. We've also increased financial support for students and families who have been particularly affected by the pandemic.

I'm proud of how our community has embraced a spirit of collective responsibility to keep one another safe and to make our world better over the last year—from our COVID-19 response; to our commitment to diversity, inclusion, and equity; to our work to prepare our students to be engaged citizens and purposeful leaders. Though this has been a time of great challenge, the crisis has added momentum to the university's mission and demonstrated how scholarship, innovation, education, and patient care can contribute to a better world for all.

Overview

While fiscal year 2021 was a time of continuing challenges and uncertainty brought on by the pandemic, the Stanford community came together with courage and resilience to advance our core missions of teaching, research and health care. The crisis underscored how critical these missions are to addressing complex, global problems and the importance of utilizing our resources with intention and innovation. Thanks to the exceptional efforts of our community, Stanford has been able to adapt and evolve, implementing new ways to broaden and improve access to education, expand the reach of our health care services, and leverage our research infrastructure to tackle the impacts of the pandemic head on. These efforts have positioned us well in continuing to deploy Stanford's tremendous strengths and resources for the benefit of humanity.

Our financial results at the end of fiscal year 2021, which include the university, Stanford Health Care (SHC), Lucile Salter Packard Children's Hospital at Stanford (LPCH) and their respective affiliates, exceeded expectations with a consolidated operating surplus of $845 million. The continuing decline in revenues in student income including room and board, and other revenue streams associated with campus activity were offset by lower expenses for travel, food and other expense. Patient volumes and associated health care services revenues grew beyond pre-pandemic levels. In addition, Coronavirus Aid, Relief and Economic Security (CARES) Act provider relief funding distributed to SHC ($393 million) and LPCH ($7 million), helped to mitigate lost revenue and expenditures incurred in both fiscal year 2020 and fiscal year 2021. Overall, expenses were higher than the previous year due to increased patient volumes, but careful financial management to control and reduce expenses helped alleviate the impact of increased costs in support of our COVID-19 efforts.

The value of the university endowment at the end of fiscal year 2021 was $37.8 billion after distributing $1.3 billion to support vital academic programs and financial aid and an additional $379 million of unrestricted endowment to fund COVID-19 related expenses and revenue shortfalls. In addition, Stanford Trustees approved the use of $500 million of unrestricted endowment to accelerate the education, research, affordability, inclusion and outreach initiatives under our Long-Range Vision.

Flexibility in Teaching and Learning

Building upon advances made in 2020 to deliver our academic mission virtually, Stanford continued to provide support and increased resources to ensure faculty and students were well equipped to thrive in a remote learning environment. Teaching methods were adjusted and continuously refined, leading to innovative methods of engaging students worldwide. Our faculty taught over 9,000 courses remotely to learners across the globe, and deployed creative ways to deliver course material from a distance, such as mailing chemistry sets across the country so that students could work together over virtual labs. Our students created virtual spaces to learn and connect with one another, strengthening collaboration and enhancing their learning. As we return to a more in-person environment, we are eager to continue to capitalize on these innovations and lessons learned to evolve the future of learning.

Innovation in Health Care

Stanford Medicine, comprised of the university's School of Medicine (SOM), SHC and LPCH, continued to confront the pandemic in real-time, while simultaneously adjusting and reimagining patient care and research through invention. Health care professionals conducted over 60,000 telemedicine visits per month, enabled by our expanded infrastructure, and utilizing advances in robotics and new mobile health applications.

Our COVID-19 related efforts this year included continued advances in prevention, testing, treatment and recovery. In prevention, we prioritized COVID-19 education and dispelling myths and misinformation about the disease. This included launching new outreach programs to our most at-risk populations, educating key community leaders, and building health hubs in trusted establishments. Bringing testing closer to home is essential and Stanford continues to support testing advancements and studies that have resulted in more accessible, less invasive methods that people can use at home. In the clinical setting, Stanford's physicians were among the first to participate in trials for new COVID-19 treatments, such as testing antibody treatments that can ease COVID-19 symptoms and reduce complications in recently diagnosed high-risk patients.

Global Recovery through Research

Research activities rebounded and grew in fiscal year 2021, driven by new and existing research focused on COVID-19. The university's Innovative Medicines Accelerator, originally intended to help researchers overcome obstacles in developing new therapeutic drugs, pivoted to focus on boosting nascent COVID-19 projects.

Using genetic information from people who have had COVID-19 and from the virus itself, researchers aim to understand the range of symptom severity in COVID-19, as well as who may be most at risk for the disease. Studies and research technologies, such as Stanford's coronavirus simulation modeling tool, help individuals make informed decisions about their own health and enable healthcare providers to plan for and mitigate the impacts.

Advancing a more Just Society

As part of the Long-Range Vision, Stanford launched its IDEAL initiative (Inclusion, Diversity, Equity and Access in a Learning Environment) in 2018. In fiscal year 2021, the university made steady progress in advancing IDEAL through a number of programs, including initiating the Community Board on Public Safety to address issues involving the safety, security and quality of life of students, staff and faculty, the IDEAL Fellows program, to increase the university's research and teaching related to race and ethnicity, with the first five faculty hires set to start in Fall 2021, and the creation of a Department of African and African American Studies.

We are excited about the progress on the IDEAL initiative and related advancements in the broad areas of recruitment, education, engagement and research, positively impacting our community both locally and more broadly.

Philanthropy

Donors continue to play a critical role in enabling the university to drive solutions for society's most complex challenges, both locally and globally. In fiscal year 2021, philanthropic giving increased by 28%, with donors providing significant support for interdisciplinary research in the data sciences, human health, and large-scale societal problems; the university also received significant pledges for a new school focused on climate and sustainability, and foundational needs including undergraduate scholarships, graduate fellowships and professorships.

Alumni are also demonstrating vigorous and broad-based philanthropic interest in Stanford Athletics. Their engagement has enabled continued support for our outstanding athletic programs across 36 varsity sports.

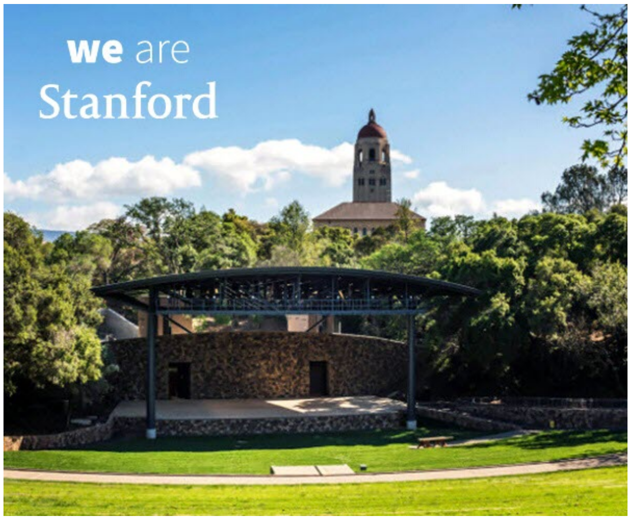
Stanford Athletics community message

Supporting our Community

The pandemic has revealed how deeply interconnected we all are. Throughout the past year, members of our community have continued to support one another—and in doing so, they've illuminated the best of Stanford.

The $379 million withdrawn from the unrestricted endowment allowed the university to continue providing resources to support students, faculty and staff, both to address the immediate impacts of the pandemic and to support an evolving work environment. These resources include COVID-19 testing costs, increases to financial aid and programs supporting faculty and staff with young children, remote schooling and caregiving responsibilities. Actions were also taken to provide expanded leave time for caregiving and wellness, extending the faculty tenure process and increasing financial assistance across a number of programs. In addition, our Flexible Work Committee has instituted new and interim policies to support flexible hours, quarantine pay, home office equipment, and testing and vaccination services.

Externally, faculty, staff and students served their local communities by volunteering at food banks, creating hygiene kits for those in need, and tutoring at-risk children. Our facilities were repurposed into testing and vaccination centers for the community, and our outdoor recreation spaces remained open to the public wherever possible.



Frost Amphitheater, "We are Stanford" event series

Summary

This year has been an extraordinary exercise in teamwork and collaboration, thoughtful planning, and persistence by the entire Stanford community. We would like to express our gratitude to the frontline finance staff and budget officers, and to all those who serve as financial stewards for the institution, for their fortitude and tireless efforts in supporting Stanford. We are pleased to provide the following report which outlines the financial results for fiscal year 2021 and a look toward the future.

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Operating Results

Despite the continued impact of COVID-19, the university, SHC and LPCH each generated positive operating results. On a consolidated basis, operating revenues exceeded expenses by $845 million, compared to $107 million in FY20.

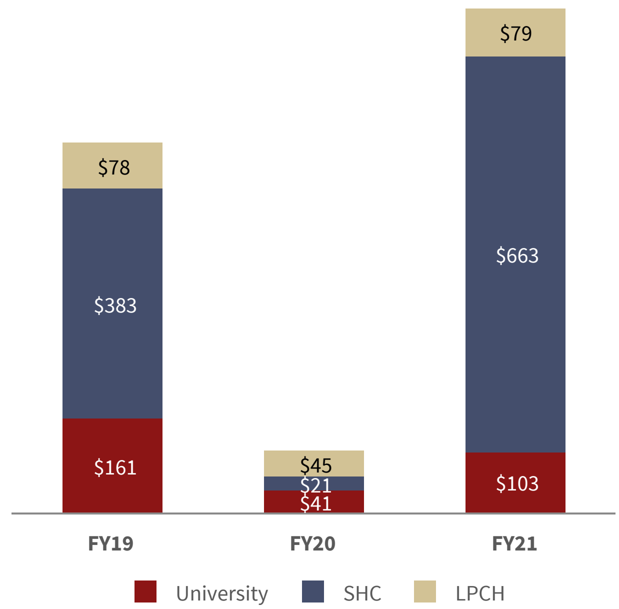
The university alone experienced an operating surplus of $103 million in FY21 compared to $41 million in FY20. This operating surplus was driven by increases in health care services, investment income distributed for operations and sponsored support. Offsetting these increases were continued declines in student income, special program fees and other income and higher operating expenses as a result of COVID-19 and growth in health care services.

SHC's operating surplus increased by $642 million to $663 million driven by a $393 million Provider Relief Fund federal grant awarded during FY21 for reimbursement of COVID-19 lost revenue and expenditures incurred in both FY20 and FY21, strong patient volume driven by increases in patient days, case mix, which is a measure of acuity, as well as a slightly more favorable commercial payor mix.

LPCH's operating surplus increased by $34 million to $79 million. The increase is mainly attributed to high-acuity, and longer-stay surgical cases. In addition, the health system experienced a decrease in Medi-Cal utilization, despite the brief yet profound spike in unemployment in the primary service area. LPCH also continued to implement cost savings measures and initiatives throughout the year in order to better manage expenses.

SHC and LPCH spent $1.5 billion and $217 million on charity care and Medi-Cal and Medicare undercompensated care, respectively.

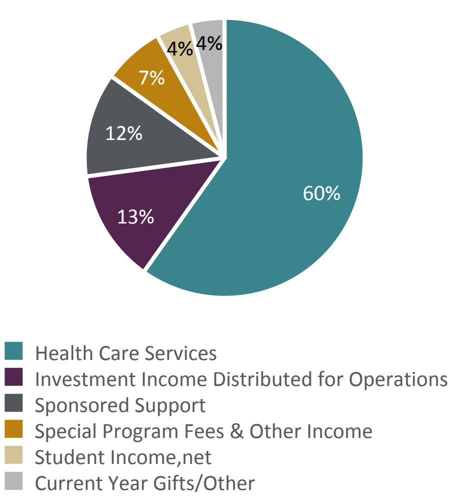
Operating Surplus (in millions)



Operating Revenues

Total consolidated operating revenues increased by $1.5 billion or 12% to $13.9 billion. Health care was the largest source of revenue followed by investment income distributed for operations and sponsored support. Special program fees and other income as well as student income continued to be significantly impacted by COVID-19.

Consolidated Operating Revenues | $13.9B



Health care services constituted 60% of consolidated total revenues in FY21 and 57% in FY20. Overall health care revenues grew by 16% to end the year at $8.3 billion. Investment income distributed for operations grew by 5% to $1.8 billion. Sponsored support is the third largest operating revenue stream and comprised 12% of consolidated operating revenues. Excluding sponsored support from the Department of Energy for SLAC National Accelerator Laboratory (SLAC), sponsored support increased by 5% to $1.2 billion due to increased federal research support from the Department of Health and Human Services.

Special program fees and other income increased by $179 million or 20% on a consolidated basis year-over-year. While the university experienced a $34 million decline due to the cancellation of various programs including travel and study programs, conferences and athletic camps, the hospitals experienced an increase due to CARES Act Provider Relief Funds of $400 million received in FY21 (an increase of around $200 million from the previous year).

Student income decreased 17% or $102 million to $508 million driven by a number of factors including decreased room and board revenues, decreased tuition revenues and increased student financial aid and support as further described under "Teaching and Education" below.

Operating Expenses

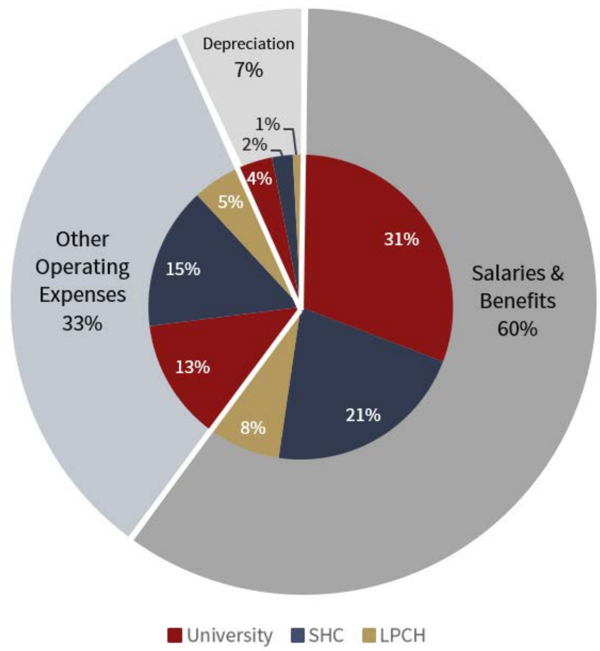
Total consolidated operating expenses increased $745 million or 6% to $13.1 billion. The majority of these expenses were salaries and benefits expense for faculty and staff which comprise more than 60% of both consolidated operating expenses and university operating expenses. Overall salaries and benefits increased by $432 million or 6% in FY21 compared to FY20 primarily as a result of increased headcount to support growing patient care needs, salary increases and higher rates of premium pay for onsite employees.

Additionally, consolidated other operating expenses increased $260 million or 6%. The university experienced increased operating costs due to the implementation of safety measures including the purchase of personal protective equipment, cleaning and sanitation supplies and services, and over 550,000 COVID-19 tests for faculty, staff and students. These expense increases were partially offset by expense reductions due to reduced travel and campus activity, as well as expense reductions related to cancellation of programs and services, resulting in an overall net increase in other operating expenses of $22 million for the university.

SHC's other operating expenses increased $265 million, or 10%, to $3.0 billion in FY21, primarily due to increases in purchased services (physician services), and coronavirus expenses incurred for the purchase of personal protective equipment, additional staffing and increased costs of medical, surgical and pharmaceutical supplies as well as additional patient care expenses related to the increased patient volume.

LPCH's other operating expenses increased $85 million, or 9% to $1.0 billion in FY21, primarily driven by increases in supplies and purchased services to support increased and highly acute patient volumes.

Consolidated Operating Expenses: $13.1B



Health Care

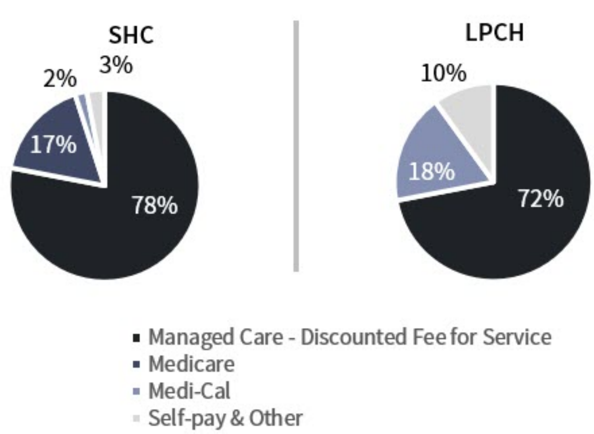
Stanford Medicine, composed of the university's School of Medicine (SOM), Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital (LPCH), is an academic medical center that integrates a research university with a network of care facilities. The SOM faculty serve as physicians for the hospitals.

The university's FY21 health care services revenue increased $100 million or 8% to $1.4 billion. The increase was driven by the continued growth in the hospital's clinical programs. Over 90% of the university's health care services revenue is received from SHC and LPCH based on clinician activities.

SHC's net patient service revenue increased by $913 million or 17% in FY21 to $6.2 billion. Inpatient and outpatient, which represented 38% and 62% of net patient revenue, respectively, grew in multiple areas, such as pharmacy, imaging, lab, cancer and neurosciences services, and other ambulatory care services.

LPCH's FY21 net patient service revenue increased by $255 million or 14% to $2.1 billion in both inpatient and outpatient services. Inpatient service growth was in the high-acuity and longer-stay surgical cases and growth across a number of service lines within Betty Irene Moore Children's Heart Center, the Johnson Center for Pregnancy and Newborn Services, the Bass Center for Childhood Cancer and Blood Diseases, the Surgical Specialties, and Brain and Behavior service line.

Net Patient Service Revenue



Research

In FY21, total sponsored support from federal and non-federal sponsored sources increased by $66 million compared to FY20.

The majority of the university's sponsored support is received from the federal government. The Department of Health and Human Services (DHHS) and the U.S. Department of Energy (DOE) are the two largest federal sponsors.

The DOE provides most of the sponsored support for the SLAC National Accelerator Laboratory (SLAC). SLAC's total sponsored support remained relatively flat in FY21. Operational activity growth of 3% was offset by a decrease in construction of new facilities and instruments of 5% as major projects near completion. SLAC's most significant construction project is the Linac Coherent Light Source (LCLS) II project, a high-powered X-ray free-electron laser, which is estimated to cost approximately $1 billion and is targeted for completion in 2022.

Excluding SLAC, the university's sponsored support revenue increased by $54 million driven mainly by an increase of $37 million in support from DHHS. Most of these revenues support research within the university's School of Medicine.

The university was awarded over $100 million sponsored research award funding in FY21 to continue COVID-19 related research aimed at understanding and preventing the spread of the virus and investigating how immune systems respond. The results in these areas also serve as a foundation for responding to future global threats.

Temiloluwa F Babalola at the Neurosciences Lab

Throughout FY21, Stanford continued to conduct hundreds of COVID-19 related projects collectively referred to as RISE – Respond, Innovate, Scale and Empower – geared towards medical research to develop new treatments and cures as well as ensuring sustainable and equitable economic recovery. RISE research projects are geared towards rapid discovery of COVID-19 and included a new genetic micro-lab that can detect COVID-19 in minutes; studying human resilience through computer modeling to predict COVID-19 transmission; and post-pandemic cooperation including a computer model to estimate the health and economic outcomes of policy responses to the pandemic.

Philanthropy | Gifts & Pledges

Stanford benefits from a community of engaged donors. Gifts are an important source of funding for current operations as well as for capital projects and new endowment. The majority of gifts and pledges at Stanford are restricted by donors for specific programs and purposes, such as student aid, academic programs that support teaching and research, and new facilities for research, clinical care and housing. Stanford reported total net gifts and pledges in FY21 of almost $1.3 billion, with $288 million reflected as current year gifts in support of operations and an additional $1.0 billion reflected in the non-operating section of the *Statement of Activities*. Gifts and pledges reported in the *Statement of Activities* are recorded on an accrual basis.

Total gifts and pledge payments reported by the Office of Development were $1.4 billion. This reflects contributions received in cash or property and includes $25 million for SHC and $35 million for LPCH.

In FY21, donors supported a number of areas including interdisciplinary research in the data sciences; research focused on the challenges faced by society, in the areas of sustainability and the environment, human health, and large-scale social problems; and core needs, in the form of scholarships and professorships.

Designing your sustainability future workshop at Terry Huffington Barn

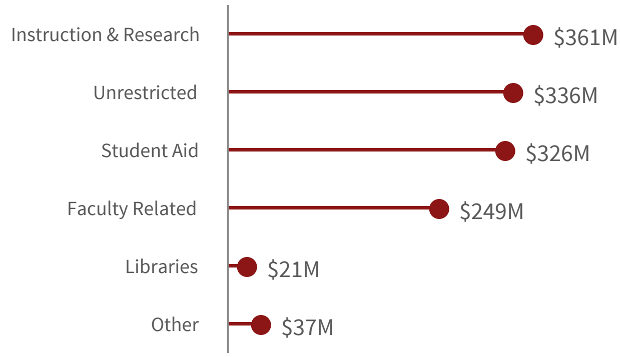
Investment Income Distributed for Operations

University investment income distributed for operations was $1.7 billion, of which $1.3 billion came from the university's endowment and the remaining $0.4 billion from the expendable funds pools and other investment income.

The Board of Trustees is responsible for determining endowment payout with the aim of balancing current and future needs of the university. Through a combination of investment strategy and payout policy, the university strives to provide a reasonably consistent monthly payout to support operations, while preserving purchasing power, and ensuring that the endowment can support the university in perpetuity.

The endowment value at the end of the fiscal year was $37.8 billion, an increase of 31% over prior year. In addition to endowment payout, the endowment disbursed $379 million of unrestricted endowment to fund COVID-19 related expenses and revenue shortfalls. The combination was equal to 5.8% of the endowment's value at the beginning of the fiscal year.

University Endowment Payout by Purpose



As shown in the figure above, 75% of the endowment payout is restricted by purpose. Endowment payout is primarily used for instruction and research activities, student aid, and faculty salaries and support. Unrestricted endowment payout is also used to support these activities in addition to other critical strategic priorities.

Teaching & Education

White Memorial Plaza on the first day of New Student Orientation, class of 2025

The global pandemic affected almost every aspect of how the university promotes and delivers its teaching mission. In 2021 the university continued to focus on ways to ensure accessibility to education and continue vital research.

Student income, which includes room and board revenues, and tuition revenues offset by student financial aid declined by 17% or $102 million. Even while students began to return to campus in the spring quarter, residential occupancy remained lower than the previous year resulting in room and board revenues decreasing by $32 million. In addition, tuition revenues decreased by $60 million driven by students deferring enrollment and the introduction of a tuition-free flex term when enrolled in five credits or less.

One of the university's highest priorities is to remain affordable and accessible to all admitted students, regardless of their financial circumstances. In FY21, Stanford expanded its undergraduate financial aid program by increasing the family income threshold from $125,000 to $150,000, below which students will not be required to pay tuition. Additionally, the university implemented new affordability initiatives including supplemental need-based support for graduate students and their families. In FY21 almost 50% of undergraduates were awarded need-based financial aid from Stanford while 85% of graduate students received some form of financial support.

Student financial aid to graduate and undergraduate students increased by $10 million to $340 million in FY21. In addition, the university also provided support in the forms of stipends, teaching and research assistantships and related allowances for tuition of $364 million in FY21.

Sources of the total $704 million of student financial aid and graduate support included approximately $329 million in payout from endowment funds and expendable gifts restricted for student aid, $242 million from unrestricted university funds and $133 million from grants and contracts.

Statements of Financial Position

Total consolidated assets increased by $12.2 billion in FY21 to end the year at $75.1 billion, while consolidated liabilities remained flat at $15.7 billion. The increase in assets was mainly due to strong investment performance.

University Investments

At August 31, 2021, university investments totaled $48.0 billion, an increase of $10.4 billion.

The majority of the university's investments, $38.3 billion, are a part of a diversified portfolio of actively managed public and private equity, absolute return, natural resources, and real estate assets. The portfolio is designed to optimize long-term returns, create consistent monthly payouts to support the university's operations and preserve purchasing power for future generations of Stanford students and scholars.

In addition, $7.0 billion of the university's investments include real estate located on a portion of Stanford's 8,180 acres which is designated by the Board of Trustees for the production of income. These lands have been developed for various uses, including research, medical and commercial offices, hotels, retail properties and a regional shopping center, and are further diversified by a variety of financial structures. In recent years, the value of these properties has benefited from regional market dynamics including rising investor demand for real estate, high occupancy rates, increased office rents and strong retail sales.

Capital Projects

Stanford continues to make significant investments in its physical facilities with consolidated spending of nearly $700 million in FY21.

For the university, these investments support its Long-Range Vision and provide the foundation to meet future campus challenges. Over the past decade, the university replaced aging facilities with new and renovated buildings to support cutting-edge science, engineering and medicine, and has expanded the arts district to enable students, faculty, staff and the larger community to experience arts on the campus in new ways. In FY 21, one of the significant projects completed was The Center for Academic Medicine.

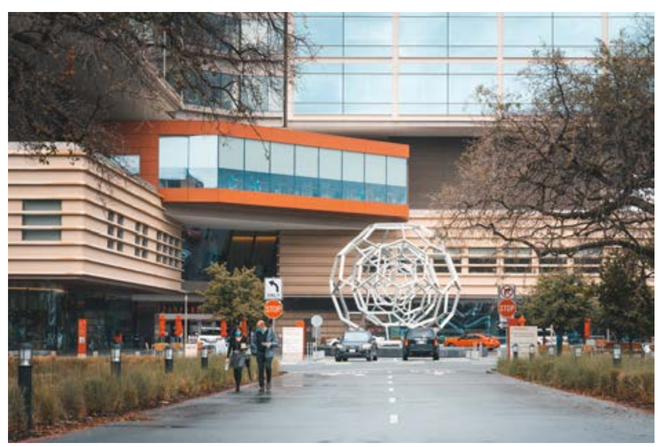
Addressing the key priority of affordable housing for staff and faculty, and supporting our diverse community, the university has started construction on Middle Plaza, that will provide rental housing units, including Below Market Rate options.

Rendering of Residential Units at Middle Plaza

Furthering its academic mission, the Graduate School of Education Renovation and New Building project, will not only upgrade the existing facility to meet contemporary teaching and research needs but will also include a new building, and will create a single cohesive campus for the Graduate School of Education. In addition, advancing Stanford's commitment to enhancing knowledge, Stanford's Board of Trustees approved the Bridge Complex for the Digital Future which will serve as an interdisciplinary hub for computation and data research.

Both SHC and LPCH also continue to make investments in facilities and systems required to remain at the forefront of medicine, to be the provider of choice for complex care and provide the highest quality of adult and children's clinical care to the communities they serve.

In FY21, the majority of SHC's spending was for hospital renovations, new clinic buildings, and information technology infrastructure enhancements. The majority LPCH's spending in FY21 was also for hospital renovation and information technology infrastructure enhancements.



Entrance to the new Stanford Hospital

Debt

During FY21, the university and SHC issued new debt driving an increase to total debt to end the year at $8.3 billion. The university issued $300 million of tax-exempt bonds (CEFA Series V-2) to be used for financing or refinancing certain capital projects. The bonds carry dual climate and sustainability designation based on an assessment by an independent verification agent of the university's commitment to environmental stewardship, sustainability, and governance (ESG) initiatives.

The university continued to maintain the highest available long- and short-term credit ratings by Moody's Investor Service (Moody's), S&P Global Ratings (S&P) and Fitch Ratings (Fitch) rating agencies.

In April 2021, SHC issued $158 million in tax-exempt bonds through the California Health Facilities Financing Authority (CHFFA). SHC also issued $365 million in taxable bonds. These financings were done to lock in debt service savings from the advance refunding of 2012 Series A bonds and reduce bank exposure through the refinancing of maturing direct placements. Additionally, SHC established a taxable commercial paper program facility to be used for general corporate purposes, including bridge financing of capital projects. SHC did not draw on this facility in FY21. In April 2021, SHC's long-term ratings were affirmed by S&P, Moody's, and Fitch at AA-/Aa3/AA, respectively.

In April 2021, CHFFA completed, on behalf of LPCH, the pricing of Forward Delivery 2022 Series A Bonds in the aggregate principal of $207 million that is expected to settle in May 2022. Proceeds of the 2022 Series A bonds will be used for the legal defeasance and redemption of 2012 Series A and B bonds and to pay a portion of the costs of issuance. In March and April 2021, LPCH's long-term ratings were affirmed by S&P, Moody's, and Fitch at A+/A1/AA-, respectively.

Looking Forward

Climate change, social disparities, educational access and health care persist as among the most pressing challenges of our time. They are global, interconnected, broad and complex.

Stanford plans to open a new school in 2022, with the goal of advancing climate science and addressing urgent challenges that threaten the health and well-being of people worldwide. Through interdisciplinary research collaboration and by engaging with colleagues and partners across the university and throughout the world, the new school will aim to enlist diverse insights and unique perspectives.

Stanford's Inclusion, Diversity, Equity, and Access in a Learning Environment (IDEAL) initiative and parallel initiatives aim to diversify the workforce and promote cultural competencies and global health initiatives. Stanford Impact Labs aims to bring together teams of researchers and practitioners to work on large, complex and multi-faceted social problems.

In the 2021-22 academic year Stanford has welcomed the largest entering freshman class in Stanford's history. The need for financial aid to support our students and their families is expected to grow. Building upon its commitment to need-based financial aid, Stanford plans to expand the undergraduate financial aid program starting with the 2021-22 academic year, such that families with annual incomes below $75,000 and assets typical of that income level will not be expected to pay tuition, room or board. In addition, undergraduate and most graduate tuition will not increase for the 2021-22 academic year.

In September 2021, Stanford announced plans to purchase Notre Dame de Namur University's (NDNU) Belmont campus with the goal of expanding the educational missions of both universities while supporting the distinct visions that each university has for its future.

Stanford will continue to explore opportunities to support its employees as they return to work. Through these and many other initiatives, Stanford intends to continue pursuing its strategic priorities – including scholarship, education, health care and innovation – while remaining committed to the spirit and values that have remained constant throughout our history.

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SELECTED FINANCIAL AND OTHER DATA

Fiscal Years Ended August 31

	2021	2020	2019	2018	2017
	(dollars in millions)				
CONSOLIDATED STATEMENTS OF ACTIVITIES HIGHLIGHTS:					
Total operating revenues	$ 13,939	$12,455	$12,262	$11,311	$10,504
Student income (A)	508	610	653	635	618
Sponsored support	1,681	1,622	1,683	1,656	1,636
Health care services	8,302	7,137	7,051	6,302	5,682
Investment income distributed for operations	1,751	1,661	1,583	1,509	1,327
Total operating expenses	13,094	12,348	11,639	10,839	10,056
Change in net assets from operating activities	845	107	623	472	448
Other changes in net assets	11,377	1,877	1,338	2,181	3,156
Net change in total net assets	$ 12,222	$ 1,984	$ 1,961	$ 2,653	$ 3,604
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 54,040	$40,929	$38,819	$37,784	$35,842
Plant facilities, net of accumulated depreciation	13,079	13,173	12,863	11,678	10,223
Notes and bonds payable	8,303	8,226	7,075	6,662	6,401
Total assets	75,144	62,970	57,803	54,746	51,648
Total liabilities	15,749	15,797	12,614	11,519	11,074
Total net assets	59,394	47,173	45,189	43,227	40,574
UNIVERSITY STATEMENTS OF FINANCIAL POSITION HIGHLIGHTS:					
Investments at fair value	$ 48,001	$37,575	$35,292	$34,517	$33,297
Plant facilities, net of accumulated depreciation	7,683	7,686	7,270	6,508	5,623
Notes and bonds payable	5,144	5,004	4,247	3,834	3,954
Total assets	60,495	49,934	46,370	44,037	41,954
Total liabilities	9,879	9,628	7,869	7,153	7,263
Total net assets	50,616	40,305	38,501	36,884	34,691
OTHER FINANCIAL DATA AND METRICS:					
University endowment at year-end	$ 37,788	$28,948	$27,700	$26,465	$24,785
University endowment payout in support of operations	1,330	1,355	1,303	1,240	1,166
As a % of beginning of year University endowment	4.6 %	4.9 %	4.9 %	5.0 %	5.2 %
As a % of University total expenses	21.5 %	22.3 %	21.8 %	21.9 %	21.7 %
Total gifts as reported by the Office of Development (B)	1,393	1,363	1,112	1,097	1,129
STUDENTS:					
ENROLLMENT: (C)					
Undergraduate	7,645	6,366	6,994	7,083	7,056
Graduate	9,292	8,791	9,390	9,437	9,368
DEGREES CONFERRED:					
Bachelor degrees	1,511	1,771	1,893	1,754	1,669
Advanced degrees	3,310	3,422	3,433	3,440	3,429
FACULTY:					
Total Professoriate (C)	2,288	2,279	2,276	2,241	2,219
ANNUAL UNDERGRADUATE TUITION RATE (IN DOLLARS)	$ 55,473	$52,857	$50,703	$48,987	$47,331

(A) Student income is reported net of financial aid in the Consolidated Statements of Activities.

(B) Includes University, SHC and LPCH gifts.

(C) Fall quarter immediately following fiscal year-end.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Leland Stanford Junior University ("Stanford University" or the "University") is the sole member of Stanford Health Care (SHC) and Lucile Salter Packard Children's Hospital at Stanford (LPCH). SHC and LPCH each have their own separate management with responsibility for their own financial reporting.

Management of the University, SHC and LPCH is each responsible for the integrity and reliability of their respective portions of these financial statements. The University oversees the process of consolidating SHC's and LPCH's information into the *Consolidated Financial Statements*. Management of each entity represents that, with respect to its financial information, the *Consolidated Financial Statements* in this annual report have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

In accumulating and controlling financial data, management of the University, SHC and LPCH maintains separate systems of internal control. Management of the respective entities believes that effective internal control has been designed, implemented and maintained to provide reasonable assurance that assets are protected and that transactions and events are recorded properly. All internal control systems, however, no matter how well designed, have inherent limitations and can provide only reasonable assurance that their objectives are met.

The accompanying *Consolidated Financial Statements* have been audited by the University's, SHC's and LPCH's independent auditor, PricewaterhouseCoopers LLP. Their report expresses an opinion as to whether the *Consolidated Financial Statements*, considered in their entirety, present fairly, in conformity with U.S. GAAP, the consolidated financial position and changes in net assets and cash flows. The independent auditor's opinion is based on audit procedures described in their report, which include considering internal control relevant to the preparation and fair presentation of the *Consolidated Financial Statements* in order to design audit procedures to provide reasonable assurance that the financial statements are free from material misstatement.

The Board of Trustees of the University and the separate Boards of Directors of SHC and LPCH, through their respective audit committees, comprised of trustees and directors not employed by the University, SHC or LPCH, are responsible for engaging the independent auditor and meeting with management, internal auditors and the independent auditor to independently assess whether each is carrying out its responsibility and to discuss auditing, internal control and financial reporting matters. Both the internal auditors and the independent auditor have full and free access to the respective audit committees. Both meet with the respective audit committees at least annually, with and without each other, and without the presence of management representatives.

Randall S. Livingston
Vice President for Business Affairs
and Chief Financial Officer
and University Liaison for Stanford Medicine
Stanford University

Anne Sweeney-Hoy
Senior Associate Vice President of Finance
Stanford University

Linda Hoff
Chief Financial Officer
Stanford Health Care

Dana Haering
Chief Financial Officer
Lucile Salter Packard Children's Hospital at Stanford

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Selected Financial & Other Data

Management Responsibility for Financial Statements

Report of Independent Auditors

Consolidated Financial Statements

Report of Independent Auditors

To The Board of Trustees of the
Leland Stanford Junior University

We have audited the accompanying consolidated financial statements of The Leland Stanford Junior University and its subsidiaries ("Stanford"), which comprise the consolidated statements of financial position as of August 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Leland Stanford Junior University and its subsidiaries as of August 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

December 1, 2021

PricewaterhouseCoopers LLP, 405 Howard Street, Suite 600, San Francisco, CA 94105
T: (415) 498 5000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At August 31, 2021 and 2020 (in thousands of dollars)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 1,672,789	$ 3,142,981
Assets limited as to use	453,452	253,483
Accounts receivable, net	1,754,010	1,540,076
Prepaid expenses and other assets	510,490	479,654
Pledges receivable, net	1,700,525	1,472,466
Student loans receivable, net	42,699	46,089
Faculty and staff mortgages and other loans receivable, net	892,098	829,262
Investments at fair value	54,039,545	40,929,240
Right-of-use assets	999,513	1,104,189
Plant facilities, net of accumulated depreciation	13,078,630	13,172,620
Works of art and special collections	—	—
TOTAL ASSETS	**$ 75,143,751**	**$ 62,970,060**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 2,789,905	$ 3,059,141
Liabilities associated with investments	974,756	1,002,896
Lease liabilities	1,047,618	1,140,497
Deferred income and other obligations	1,988,117	1,626,449
Accrued pension and postretirement benefit obligations	629,851	719,879
Notes and bonds payable	8,302,590	8,225,671
U.S. government refundable loan funds	16,456	22,668
TOTAL LIABILITIES	**15,749,293**	**15,797,201**
NET ASSETS:		
Without donor restrictions	35,452,324	28,906,775
With donor restrictions	23,942,134	18,266,084
TOTAL NET ASSETS	**59,394,458**	**47,172,859**
TOTAL LIABILITIES AND NET ASSETS	**$ 75,143,751**	**$ 62,970,060**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended August 31, 2021 and 2020 (in thousands of dollars)

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
OPERATING REVENUES:		
TOTAL STUDENT INCOME, NET	**$ 507,923**	**$ 610,172**
Sponsored support:		
Direct costs - University	900,635	858,422
Direct costs - SLAC National Accelerator Laboratory	489,872	484,823
Indirect costs	297,514	278,635
TOTAL SPONSORED SUPPORT	**1,688,021**	**1,621,880**
TOTAL HEALTH CARE SERVICES, primarily net patient service revenue	**8,301,556**	**7,136,588**
TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**293,715**	**295,726**
Net assets released from restrictions:		
Payments received on pledges	245,873	187,033
Prior year gifts released from donor restrictions	99,352	70,305
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**345,225**	**257,338**
Investment income distributed for operations:		
Endowment	1,349,444	1,372,967
Expendable funds pools and other investment income	401,838	288,150
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,751,282**	**1,661,117**
TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME	**1,051,292**	**872,596**
TOTAL OPERATING REVENUES	**13,939,014**	**12,455,417**
OPERATING EXPENSES:		
Salaries and benefits	7,877,461	7,445,729
Depreciation	866,675	813,403
Other operating expenses	4,349,432	4,088,955
TOTAL OPERATING EXPENSES	13,093,568	12,348,087
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 845,446**	**$ 107,330**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES, Continued

For the years ended August 31, 2021 and 2020 (in thousands of dollars)

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)		
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 845,446**	**$ 107,330**
NON-OPERATING ACTIVITIES:		
Increase in reinvested gains	5,548,668	792,130
Donor advised funds, net	3,395	61,723
Current year gifts not included in operations	408	2,026
Capital and other gifts released from restrictions	71,698	978,866
Pension and other postemployment benefit related changes other than service cost	107,179	91,792
Transfer to net assets with donor restrictions, net	(75,080)	(128,935)
Swap interest and change in value of swap agreements	53,351	(62,036)
Loss on extinguishment of debt	(2,558)	—
Other	(6,958)	(1,812)
NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**6,545,549**	**1,841,084**
NET ASSETS WITH DONOR RESTRICTIONS		
Gifts and pledges, net	1,104,077	739,241
Increase in reinvested gains	4,817,896	519,423
Change in value of split-interest agreements, net	122,553	16,293
Net assets released to operations	(370,724)	(282,079)
Capital and other gifts released to net assets without donor restrictions	(71,698)	(978,866)
Transfer from net assets without donor restrictions, net	75,080	128,935
Other	(1,134)	(138)
NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**5,676,050**	**142,809**
NET CHANGE IN TOTAL NET ASSETS	**12,221,599**	**1,983,893**
Total net assets, beginning of year	47,172,859	45,188,966
TOTAL NET ASSETS, END OF YEAR	**$59,394,458**	**$47,172,859**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2021 and 2020 (in thousands of dollars)

	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	$ 12,221,599	$ 1,983,893
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	866,675	813,403
Amortization of bond premiums, discounts and other	19,569	9,814
Losses on disposal of plant facilities	—	981
Net gains on investments	(12,230,714)	(2,721,023)
Change in fair value of interest rate swaps	(78,195)	42,017
Change in split-interest agreements	158,814	43,609
Change in deferred tax asset and liability	129,127	57,219
Investment income (expense) for restricted purposes	99,098	(905)
Gifts restricted for long-term investments	(863,431)	(364,763)
Gifts of securities and properties	(30,509)	(27,432)
Other	33,740	25,950
Premiums received from bond issuance	96,831	19,885
Changes in operating assets and liabilities:		
Accounts receivable	(245,004)	(25,996)
Pledges receivable, net	(15,298)	(69,335)
Prepaid expenses and other assets	(63,056)	(107,108)
Accounts payable and accrued expenses	(98,896)	605,492
Accrued pension and postretirement benefit obligations	(90,028)	(79,434)
Lease liabilities	(38,247)	5,725
Deferred income and other obligations	259,373	131,449
NET CASH PROVIDED BY OPERATING ACTIVITIES	**131,448**	**343,441**
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to plant facilities, net	(790,859)	(1,283,341)
Student, faculty and other loans:		
New loans made	(178,342)	(105,086)
Principal collected	105,835	65,511
Purchases of investments	(20,316,653)	(15,981,319)
Sales and maturities of investments	18,387,854	17,663,914
Change associated with short term investments	437,983	(684,461)
Swap settlement payments, net	(21,420)	(16,825)
NET CASH USED FOR INVESTING ACTIVITIES	**(2,375,602)**	**(341,607)**
CASH FLOW FROM FINANCING ACTIVITIES		
Gifts and reinvested income for restricted purposes	548,843	427,189
Proceeds from borrowing	1,027,471	1,429,662
Repayment of notes and bonds payable	(1,012,887)	(262,171)
Bond issuance costs and interest rate swaps	(5,412)	(6,115)
Contributions received for split-interest agreements	19,709	55,503
Payments made under split-interest agreements	(51,186)	(46,095)
Securities lending collateral sold, net	9,393	(19,468)
Other	(4,907)	(14,319)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**531,024**	**1,564,186**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,713,130)**	**1,566,020**
Cash and cash equivalents, beginning of year	3,578,855	2,012,835
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,865,725**	**$ 3,578,855**
SUPPLEMENTAL DATA:		
Cash and cash equivalents as shown in the *Statements of Financial Position*	$ 1,672,789	$ 3,142,981
Restricted cash and cash equivalents included in assets limited as to use	117,179	92
Restricted cash included in other assets	28,432	44,168
Cash and restricted cash included in investments	47,325	391,614
TOTAL CASH AND CASH EQUIVALENTS AS SHOWN ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS	**$ 1,865,725**	**$ 3,578,855**
Interest paid, net of capitalized interest	$ 294,161	$ 251,907
Change in payables for plant facilities	$ (27,908)	$ (170,658)
Right-of-use assets obtained in exchange for lease liabilities	$ 66,534	$ 447,016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

BASIS OF PRESENTATION

The *Consolidated Financial Statements* include the accounts of The Leland Stanford Junior University ("Stanford University" or the "University"), Stanford Health Care (SHC), Lucile Salter Packard Children's Hospital at Stanford (LPCH) and other majority-owned or controlled entities of the University, SHC and LPCH. Collectively, all of these entities are referred to as "Stanford". All significant inter-entity transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on total net assets or the change in total net assets.

University

The University is a private, not-for-profit educational institution, founded in 1885 by Senator Leland and Mrs. Jane Stanford in memory of their son, Leland Stanford Jr. A Board of Trustees (the "Board") governs the University. The University information presented in the *Consolidated Financial Statements* comprises all of the accounts of the University, including its institutes and research centers, and the Stanford Management Company.

SLAC National Accelerator Laboratory (SLAC) is a federally funded research and development center owned by the U.S. Department of Energy (DOE). The University manages and operates SLAC for the DOE under a management and operating contract; accordingly, the revenues and expenditures of SLAC are included in the *Consolidated Statements of Activities*, but SLAC's DOE funded assets and liabilities are not included in the *Consolidated Statements of Financial Position*. SLAC employees are University employees and participate in the University's employee benefit programs. The University holds some receivables from the DOE substantially related to reimbursement for employee compensation and benefits.

Hospitals

SHC and LPCH (the "Hospitals") are California not-for-profit public benefit corporations, each governed by a separate Board of Directors. The University is the sole member of each of these entities. SHC and LPCH support the mission of medical education and clinical research of the University's School of Medicine (SOM). Collectively, the SOM and Hospitals comprise Stanford Medicine. SHC and LPCH operate two licensed acute care and specialty hospitals on the Stanford campus, a leading community acute care hospital, and numerous physician clinics on the campus, in community settings and in association with regional hospitals in the San Francisco Bay Area and elsewhere in California. The University has partnered with SHC and LPCH, respectively, to establish physician medical foundations to support Stanford Medicine's mission of delivering quality care to the community and conducting research and education.

TAX STATUS

The University, SHC and LPCH are exempt from federal and state income taxes to the extent provided by Section 501(c)(3) of the Internal Revenue Code and equivalent state provisions, except with regard to unrelated business income which is taxable at corporate income tax rates, and provisions of the 2017 Tax Cuts and Jobs Act (TCJA).

In accordance with the guidance on accounting for uncertainty in income taxes, management regularly evaluates its tax positions and does not believe the University, SHC or LPCH have any uncertain tax positions that require disclosure in or adjustment to the *Consolidated Financial Statements*. The University, SHC and LPCH are subject to routine audits by taxing jurisdictions. Management of each of the consolidated entities believes they are no longer subject to income tax examinations for fiscal years prior to August 31, 2017.

BASIS OF ACCOUNTING

The *Consolidated Financial Statements* are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the *Consolidated Financial Statements* and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

For financial reporting purposes, net assets and revenues, expenses, gains and losses are classified into one of two categories - net assets without donor restrictions and net assets with donor restrictions based on the existence or absence of legal or donor-imposed restrictions (see *Note 10*).

Net assets without donor restrictions are expendable resources which are not subject to donor-imposed restrictions. These net assets may be designated by Stanford for specific purposes under internal operating and administrative arrangements or be subject to contractual agreements with external parties (see *Note 10*).

Net assets with donor restrictions include gifts, pledges and split-interest agreements (a) which by donor stipulation must be made available in perpetuity for investment or specific purposes, or (b) for which legal or donor imposed restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors, or appreciation and income on certain donor-restricted endowment funds that have not yet been appropriated for spending (see *Note 11*).

Contributions with donor restrictions that relate to Stanford's core activities and are received and expended or deemed expended based on the nature of donors' restrictions are classified as net assets without donor restrictions. Gifts and pledges subject to donor-imposed restrictions for specific purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions upon expiration of time and purpose restrictions. Donor-restricted resources intended for capital projects are initially recorded as net assets with donor restrictions and then released and reclassified as net assets without donor restrictions when the asset is placed in service.

Transfers from net assets without donor restrictions to net assets with donor restrictions are primarily the result of donor redesignations or matching funds that are added to donor gift funds which then take on the same restrictions as the donor gift.

The operating activities of Stanford include the revenues earned and expenses incurred in the current year to support teaching, research, and health care. The non-operating activities of Stanford include increases in reinvested gains, current year gifts not included in operations, capital and other gifts released from restrictions, pension and other postemployment benefit related changes other than service cost, and certain other non-operating activities. All expenses are recorded as a reduction of net assets without donor restrictions with the exception of investment expenses that are required to be netted against investment returns.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the *Consolidated Statements of Financial Position* primarily consist of U.S. Treasury bills, certificates of deposit, repurchase agreements, money market funds and all other short-term investments available for current operations with original maturities of 90 days or less at the time of purchase. These amounts are carried at amortized cost, which approximates fair value. Cash and cash equivalents that are held for investment purposes are classified as investments (see *Note 6*). The University has elected the policy to treat cash equivalents held for investment as short-term investments, and are therefore excluded from cash and cash equivalents on the *Consolidated Statements of Cash Flows.*

ASSETS LIMITED AS TO USE

Assets limited as to use consist of deferred compensation plan assets and tax-exempt bond proceeds as described below:

Deferred compensation plan assets

The University's custodians hold 457(b) non-qualified deferred compensation plan assets under a grantor trust which requires that they be used to satisfy plan obligations to participants and beneficiaries unless the University becomes insolvent. The funds are primarily invested in mutual funds, at the participants' discretion, which are valued based on quoted market prices (and exchange rates, if applicable) on the last trading date of the principal market on or before August 31.

Tax-exempt bond proceeds

The proceeds of tax-exempt bonds issued for the benefit of the University and trustee-held accounts holding proceeds of tax-exempt bonds issued for the benefit of SHC and LPCH are limited by the terms of indentures to use for qualified capital projects. The assets consist of cash and cash equivalents, recorded at cost, which approximates fair value.

ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable are carried at cost, less an allowance for doubtful accounts.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses consist of amounts paid in advance for goods or services that will be received after the end of the fiscal year including software licenses and travel programs. Other assets include cash collateral held for interest rate swaps (see *Note 7*) and restricted cash.

PLEDGES RECEIVABLE

Unconditional promises to give are included in the *Consolidated Financial Statements* as pledges receivable and are classified as net assets with donor restrictions. Pledges recognized on or after September 1, 2009 are recorded at an applicable risk-adjusted discount rate commensurate with the duration of the donor's payment plan. Pledges recognized in periods prior to September 1, 2009 were recorded at a discount based on the U.S. Treasury rate. Conditional promises to give are not recorded until specified obligations or barriers, such as milestones or performance targets, are met.

INVESTMENTS

Investments are recorded at fair value. Gains and losses (realized and unrealized) on investments are recognized in the *Consolidated Statements of Activities* (see *Note 6*).

PLANT FACILITIES

Plant facilities are recorded at cost or, for donated assets, at fair value at the date of donation. Interest expense for construction financing, net of income earned on unspent proceeds, is capitalized as a cost of construction. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives used in calculating depreciation for the years ended August 31, 2021 and 2020 are as follows:

Land improvements	5-25 years
Buildings and building improvements	3-50 years
Furniture, fixtures and equipment	3-20 years
Utilities	5-40 years

WORKS OF ART AND SPECIAL COLLECTIONS

Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are not capitalized. Donations of such collections are not recorded for financial statement purposes. Purchases of collection items are recorded as operating expenses in the period in which they are acquired. Proceeds from sales of such items are used to acquire other items for the collections.

DONATED ASSETS

Donated assets, other than works of art and special collections, are recorded at fair value at the date of donation. Undeveloped land, including land acquired under the original endowment to the University from Senator Leland and Mrs. Jane Stanford, is reported at fair value as of the date of acquisition. Under the terms of the original founding grant, a significant portion of University land may not be sold.

DONOR ADVISED FUNDS

The University receives gifts from donors under donor advised fund (DAF) agreements. These funds are owned and controlled by the University and are separately identified by donor. A significant portion of the gift must be designated to the University. At August 31, 2021 and 2020, approximately $772.0 million and $574.3 million, respectively, of DAFs may be used to support other approved charities; the donors have advisory privileges with respect to the distribution of these funds.

Current year gifts under the DAF agreements are included in the *Consolidated Statements of Activities* as "donor advised funds, net" at the full amount of the gift. Transfers of funds to other charitable organizations are included in the *Consolidated Statements of Activities* as a reduction to "donor advised funds, net" at the time the transfer is made.

SPLIT-INTEREST AGREEMENTS

Split-interest agreements consist of arrangements with donors where Stanford has an interest in the assets and receives benefits that are shared with other beneficiaries. Stanford's split-interest agreements with donors, for which Stanford serves as trustee, consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, pooled income funds, perpetual trusts and charitable lead trusts. Assets are invested and payments are made to donors or other beneficiaries in accordance with the respective agreements. Contribution revenues are recognized at the date the agreements are established. The fair value of the estimated future payments to beneficiaries under these agreements is recorded as a liability.

The assets held under split-interest agreements, where the University is the trustee, were $1.1 billion and $909.6 million at August 31, 2021 and 2020, respectively, and were recorded in specific investment categories. The assets held under split-interest agreements, where LPCH is the trustee, were $13.1 million and $11.3 million at August 31, 2021 and 2020, respectively, and were recorded in specific investment categories. Liabilities for the discounted present value of any income beneficiary interest are reported in "liabilities associated with investments" in the *Consolidated Statements of Financial Position*. At August 31, 2021 and 2020, the University used discount rates of 1.2% and 0.4%, respectively, based on the Charitable Federal Midterm Rate. The LPCH discount rate used during the years ended August 31, 2021 and 2020 was 1.2% and 0.7%, respectively, determined using the T-bill rate.

Included in assets held under split-interest agreements are amounts held to meet legally mandated annuity reserves of $29.8 million and $32.9 million as of August 31, 2021 and 2020 respectively, as required by California state law.

For irrevocable split-interest agreements whose assets are held in trusts not administered by the University, Stanford recognizes the estimated fair value of its beneficial interest in the trust assets and the associated gift revenue when reported to Stanford. These split-interest agreements are recorded in the "assets held by other trustees" category of "investments" in the *Consolidated Statements of Financial Position* as described in *Note 6*.

During fiscal years 2021 and 2020, the discounted present value of new University gifts subject to split-interest agreements, net of any income beneficiary share, was $8.0 million and $12.9 million, respectively, and was included in net assets with donor restrictions as "gifts and pledges, net" in the *Consolidated Statements of Activities*. Actuarial gains or losses were included in "change in value of split-interest agreements, net" in the *Consolidated Statements of Activities*.

DEFERRED INCOME AND OTHER OBLIGATIONS

Deferred income and other obligations consist of advance payments of student tuition, student room and board, sponsored support, and support of other operating programs. Revenue is recognized as it is earned or as the associated conditions are satisfied. In addition, the University records other deferred income and obligations as described below.

Deferred Rental Income

As part of its investment portfolio, the University holds certain investment properties that it leases to third parties under non-cancellable leases. In some lease transactions with properties in the Stanford Research Park and other properties, including the Stanford Shopping Center, prepaid rent is received, recorded as deferred rental income and amortized over the term of the lease (see also the *Future Minimum Rental Income* section in *Note 6*). As of August 31, 2021 and 2020, deferred rental income was $912.8 million and $797.4 million, respectively.

457(b) Deferred Compensation Plan

The University offers a non-qualified deferred compensation plan under Internal Revenue Code 457(b) to a select group of highly compensated employees. There is no University contribution related to the plan. The University has recorded both an asset and a liability related to the plan of $336.3 million and $253.4 million as of August 31, 2021 and 2020, respectively; the assets are included in “assets limited as to use” in the *Consolidated Statements of Financial Position*.

Repurchase Obligations

In an effort to provide affordable housing, certain residential units are offered to eligible faculty and staff under long-term restricted ground leases. These units are located on or in close proximity to Stanford’s campus. The cost of the units that are constructed or purchased by the University is included in “plant facilities, net of accumulated depreciation” in the *Consolidated Statements of Financial Position*.

The University has the obligation to repurchase certain residential units when specified triggering events occur. As of August 31, 2021 and 2020, Stanford has recognized a net repurchase obligation of $121.0 million and $101.6 million, respectively, to repurchase its interests in these residential units, net of home mortgage financing assistance provided by the University of $204.1 million and $190.7 million, respectively (see *Note 5*). The change in the repurchase obligation and the original purchase price is recorded as interest accretion and is reflected in “other operating expenses” in the *Consolidated Statements of Activities*. For the years ended August 31, 2021 and 2020, interest accretion was $9.4 million and $8.7 million, respectively.

Asset Retirement Obligations

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized at the same amount as the liability. Asset retirement costs are subsequently amortized over the useful lives of the related assets and the obligations are increased based on an appropriate discount rate. As of August 31, 2021 and 2020, SHC had asset retirement obligations of $107.7 million and $104.1 million, respectively.

SELF-INSURANCE

The University self-insures at varying levels for unemployment, disability, workers’ compensation, property losses, certain health care plans and general and professional liability losses. SHC and LPCH self-insure at varying levels for health care plans, workers’ compensation and, through their captive insurance company, for professional liability losses. In some cases, third-party insurance is purchased to cover liabilities in excess of self-insured retentions. Estimates of retained self-insured losses are reserved and accrued.

INTEREST RATE EXCHANGE AGREEMENTS

The University and SHC have entered into several interest rate exchange agreements to reduce the effect of interest rate fluctuation on their variable rate revenue bonds and notes. Current accounting guidance for derivatives and hedges requires entities to recognize all derivative instruments at fair value. The University and SHC do not designate and qualify their derivatives for hedge accounting; accordingly, any changes in the fair value (i.e. gains or losses) flow directly to the *Consolidated Statements of Activities* as a non-operating activity in “swap interest and change in value of swap agreements.” The settlements (net cash payments less receipts) under the interest rate exchange agreements are also recorded in the *Consolidated Statements of Activities* in “swap interest and change in value of swap agreements."

The University has also entered into interest rate exchange agreements to reduce the effect of interest rate fluctuations of certain investment positions (see *Note 7*).

REVENUE

Student income and financial aid

"Student income, net" reported in the *Consolidated Statements of Activities* consists of tuition, room and board, and other student fees from undergraduate and graduate students which are recognized as revenue ratably during the fiscal year in which the academic services are rendered. The University also provides financial aid in the form of scholarship and fellowship grants that cover a portion of tuition, room and board, and other student fees; this financial assistance is reflected as a reduction of student income. Student payments are due at the beginning of each academic term. Payments received for future academic terms are recorded as deferred income and totaled $8.3 million and $7.5 million for the years ended August 31, 2021 and 2020, respectively. These payments are recognized in the subsequent fiscal year. The following table presents student income, net of financial aid, for the years ended August 31, in thousands of dollars:

	2021	2020
Student income:		
Undergraduate programs	$ 337,103	$ 383,870
Graduate programs	378,240	391,480
Room and board	132,521	164,874
Student financial aid	(339,941)	(330,052)
TOTAL STUDENT INCOME, NET	**$ 507,923**	**$ 610,172**

In addition to student financial aid, the University also provided other graduate support in the form of stipends, teaching and research assistantships, and related allowances for tuition. These amounts are reflected in operating expenses.

Sponsored Support

The University conducts substantial research pursuant to contracts and grants from the federal government, state and local governments, private corporations, foundations and others. Sponsored support earned from the federal government (including SLAC) is the largest segment of sponsored support. For both years ended August 31, 2021 and 2020, federal sponsored support was $1.3 billion. The Office of Naval Research is the University's cognizant federal agency for determining indirect cost rates charged to federally sponsored agreements. It is supported by the Defense Contract Audit Agency, which has the responsibility for auditing direct and indirect charges under those agreements.

The majority of sponsored support is contribution revenue and is recognized when any sponsor-imposed conditions have been met, typically when qualifying expenditures are incurred. Sponsored contribution revenue for the years ended August 31, 2021 and 2020 was $1.1 billion and $1.0 billion, respectively.

Other sponsored arrangements are considered exchange transactions and revenue is recognized in accordance with the terms of each contract or grant which are primarily based on costs incurred, completion of milestones, or other obligations as specified in the contracts. For the years ended August 31, 2021 and 2020, the University recognized $123.8 million and $122.5 million in revenue from exchange contracts, respectively.

SLAC is managed and operated by the University for the DOE under a management and operating contract, which is considered to be an exchange transaction. The University operates SLAC and the DOE is obligated to pay for allowable operating costs. The University recognizes revenue from the DOE as costs are incurred in the management and operation of SLAC per the terms of the contract. Revenue of $489.9 million and $484.8 million was recognized for the years ended August 31, 2021 and 2020, respectively.

Deferred income of $180.4 million and $179.8 million was recorded at August 31, 2021 and 2020, respectively, for payments received from sponsors that have not been earned. During the years ended August 31, 2021 and 2020, $121.0 million and $107.8 million of revenue was recognized that was included in the prior year deferred income balance, respectively. In addition, as of both August 31, 2021 and 2020, the University had been awarded $1.1 billion in sponsored support for which the conditions to recognize revenue have not been met. These are conditional contributions and are not recorded in the *Consolidated Financial Statements*.

Health Care Services

“Total health care services” is reported in the *Consolidated Statements of Activities* at the estimated net realizable amounts from patients, third-party payers, and others for services rendered (collectively, "patient care revenue"). Estimated net realizable amounts represent amounts due, net of price concessions. Price concessions are based on management’s assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. SHC and LPCH derive a majority of patient care revenues from contractual agreements with Medicare, Medi-Cal and other third-party payers. Payments under these agreements and programs are based on a variety of payment models (see *Note 12*). Health care revenue is recognized as services are rendered either at a point in time or, for inpatient acute care services, over time generally from admission to discharge. Generally, patients and third-party payers are billed several days after services are performed or shortly after discharge. All health care revenue relates to contracts with customers with a duration of less than one year.

The University has entered into various operating agreements with SHC and LPCH for the professional services of School of Medicine faculty members, and for non-physician services such as telecommunications, facilities, and other services. The payments by the Hospitals to the University for professional services are eliminated in consolidation.

SHC and LPCH provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. The Hospitals do not record revenue for amounts determined to qualify as charity care (see *Note 12*).

Gifts

Gifts are contributions primarily received from donors such as alumni and other private individuals, trusts, and foundations. Gifts may be designated by donors for specific purposes; accordingly, they are recognized in the period received in the appropriate net asset category based on the presence or absence of donor restrictions on their use. Contributions designated for the acquisition of plant facilities and long-term investments are initially reported in net assets with donor restrictions.

Gifts are considered conditional if the terms of the agreement include both a requirement for Stanford to meet certain specified obligations, or barriers, such as milestones or performance targets, and a refund of amounts paid (or a release from obligation to make future payments). Conditional gifts are not recorded until the obligations or barriers are met.

Special Program Fees and Other Income

Special program fees and other income consists of several exchange contracts including instruction fees for professional education programs, membership affiliation fees, rental income, travel and camp programs , distributions from the Pac-12 Conference, Stanford Blood Center fees, and various other types of income. Depending on the program, revenue is recognized at a point in time or over time as obligations are met. For the years ended August 31, 2021 and 2020, other income includes $399.5 million and $201.8 million of CARES Act provider relief funding, respectively. Provider relief funding was recognized based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services (see *Note 19*).

RECENT ACCOUNTING PRONOUNCEMENTS

Periodically, the Financial Accounting Standards Board (FASB) issues updates to the Accounting Standards Codification (ASC) which impact Stanford’s financial reporting and related disclosures. The following paragraphs summarize relevant updates. Unless otherwise noted, Stanford is currently evaluating the impact that these updates will have on the *Consolidated Financial Statements*.

Contributed nonfinancial assets

Accounting Standards Update (ASU) 2020-07, FASB Issue Date: September 2020, Effective Date: Fiscal Year 2022

The 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 *Statement of Activities* 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.

Reference rate reform

ASU 2020-04, FASB Issue Date: March 2020, Effective Date: All contracts as of March 12, 2020 through December 31, 2022

The ASU provides optional expedients for applying GAAP to contracts and other transactions that reference LIBOR or other reference rates that are expected to be discontinued because of reference rate reform. The amendments also permits an entity to consider contract modifications due to reference rate reform to be an event that does not require contract remeasurement. For the year ended August 31, 2021 there is no impact to the University due to reference rate reform since impacted contracts will not transition to other benchmark rates until LIBOR sunsets in 2023.

Intangibles - goodwill and other

ASU 2019-06, FASB Issue Date: May 2019, Effective Date: Fiscal Year 2021

The ASU allows Not-for-Profit Entitles to amortize goodwill on a straight line basis over 10 years or less than 10 years if appropriate and option to test impairment. The new guidance has been adopted in fiscal year 2021 and did not have an impact on the *Consolidated Financial Statements.*

Works of art and special collections

ASU 2019-03, FASB Issue Date: March 2019, Effective Date: Fiscal Year 2021

The ASU modifies the definition of the term "collections" so that they are subject to an organizational policy that stipulates the use of proceeds from collection items that are sold to be for the acquisition of new collection items, the direct care of existing collections, or both. The new guidance has been adopted in fiscal year 2021 and did not have an impact on the *Consolidated Financial Statements.*

Cloud computing arrangements

ASU 2018-15, FASB Issue Date: In August 2018, Effective Date: Fiscal Year 2022

The ASU requires 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.

Defined benefit plan disclosures

ASU 2018-14, FASB Issue Date: August 2018, Effective Date: Fiscal Year 2022

The ASU adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans.

Fair value

ASU 2018-13, FASB Issue Date: August 2018, Effective Date: Fiscal Year 2021

The ASU adds, modifies, and removes certain fair value measurement disclosure requirements. The portion of this guidance that modified and removed fair value disclosure requirements was early adopted in fiscal year 2019. The remaining guidance was adopted in fiscal year 2021 (see *Note 6*).

2. Financial Assets and Liquid Resources

OVERVIEW

Stanford closely monitors its liquidity requirements and structures its financial assets to meet its short- and long-term needs and contractual commitments. To meet these needs, Stanford holds investments in various pools or in specific assets with varying degrees of liquidity, as well as having an authorized short-term commercial paper program. Stanford also has access to additional short-term financing facilities such as revolving lines of credit that can be available for unexpected liquidity needs (see *Note 9*).

OPERATIONS

The University, SHC and LPCH each manage their own operating cash through short-term investment pools. The primary investment objective for these funds is to preserve the principal value of the portfolio while meeting the liquidity needs of each of the entities. Cash flows vary seasonably during the year due to a variety of factors including timing of donor contributions, the University's academic calendar and the Hospitals' patient admission cycles. For working capital purposes, cash is managed by matching the timing of inflows and outflows as closely as possible, combined with active use of cash forecasting models to manage investment timing. Operating liquidity is tracked daily and reported weekly to provide management visibility. As noted above, back up borrowing facilities are also available to meet working capital needs.

MERGED POOL

The Merged Pool (MP) is the primary investment pool for endowment and other long-term funds for the University and the Hospitals. Approximately 14% of the MP consists of liquid investments, with the balance representing investments which are generally subject to constraints which either limit Stanford's ability to withdraw such capital or limit the amounts available for withdrawal at given redemption dates. The MP further maintains sufficient liquidity to distribute the monthly endowment payout in support of University operating expenditures, and to meet unfunded commitments associated with certain alternative investments. It is not the intention of the University to utilize its financial assets without donor restrictions-including board designated endowment funds-that are invested for the long-term for unplanned operating commitments; however, amounts could be made available from these sources if necessary, except for those underlying investments with lock-up provisions (see *Note 6)*.

Financial assets and liquid resources available within one year of the balance sheet date at August 31, 2021 and 2020 in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Financial assets:				
Cash and cash equivalents	$ 874,943	$ 407,044	$ 390,802	$ 1,672,789
Assets limited as to use	117,179	—	—	117,179
Accounts receivable, net	218,351	764,948	617,783	1,601,082
Pledges receivable available for operations	135,427	—	12,564	147,991
Investments available for current use	962,602	2,222,890	788,068	3,973,560
Endowment payout in support of operations	1,428,000	—	—	1,428,000
Financial assets available to meet cash needs for general expenditure within one year	3,736,502	3,394,882	1,809,217	8,940,601
Liquid resources available for use:				
Taxable commercial paper	500,000	—	—	500,000
Tax-exempt commercial paper	300,000	—	—	300,000
Revolving credit facilities	425,000	100,000	200,000	725,000
TOTAL FINANCIAL ASSETS AND LIQUID RESOURCES AVAILABLE WITHIN ONE YEAR	**$ 4,961,502**	**$ 3,494,882**	**$ 2,009,217**	**$ 10,465,601**
2020				
Financial assets:				
Cash and cash equivalents	$ 1,153,303	$ 1,642,912	$ 346,766	$ 3,142,981
Accounts receivable, net	219,349	654,342	513,297	1,386,988
Pledges receivable available for operations	108,345	—	10,733	119,078
Investments available for current use	852,839	709,260	610,407	2,172,506
Endowment payout in support of operations	1,270,000	—	—	1,270,000
Financial assets available to meet cash needs for general expenditure within one year	3,603,836	3,006,514	1,481,203	8,091,553
Liquid resources available for use:				
Taxable commercial paper	500,000	—	—	500,000
Tax-exempt commercial paper	250,000	—	—	250,000
Revolving credit facilities	389,700	200,000	170,000	759,700
TOTAL FINANCIAL ASSETS AND LIQUID RESOURCES AVAILABLE WITHIN ONE YEAR	**$ 4,743,536**	**$ 3,206,514**	**$ 1,651,203**	**$ 9,601,253**

3. Accounts Receivable

Accounts receivable, net of allowances for doubtful accounts, at August 31, 2021 and 2020, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
U.S. government sponsors	$ 116,338	$ 17,955	$ —	$ 134,293
Non-federal sponsors and programs	60,218	18,951	26,361	105,530
Accrued interest on investments	22,695	—	—	22,695
Student	9,466	—	—	9,466
Patient and third-party payers	—	764,948	579,760	1,344,708
Other	36,199	92,667	11,662	140,528
	244,916	894,521	617,783	1,757,220
Less allowance for doubtful accounts	(3,210)	—	—	(3,210)
ACCOUNTS RECEIVABLE, NET	**$ 241,706**	**$ 894,521**	**$ 617,783**	**$ 1,754,010**
2020				
U.S. government sponsors	$ 111,300	$ —	$ —	$ 111,300
Non-federal sponsors and programs	65,184	18,803	23,265	107,252
Accrued interest on investments	13,564	—	—	13,564
Student	5,355	—	—	5,355
Patient and third-party payers	—	654,342	467,612	1,121,954
Other	40,910	119,990	22,420	183,320
	236,313	793,135	513,297	1,542,745
Less allowance for doubtful accounts	(2,669)	—	—	(2,669)
ACCOUNTS RECEIVABLE, NET	**$ 233,644**	**$ 793,135**	**$ 513,297**	**$ 1,540,076**

4. Pledges Receivable

Pledges are recorded at discounted rates ranging from 0.6% to 5.7%. At August 31, 2021 and 2020, pledges receivable, net of discounts and allowances, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2021					
One year or less	$ 281,562	$ 29,398	$ 79,879	$ (19,030)	$ 371,809
Between one year and five years	1,121,211	19,755	58,269	(27,688)	1,171,547
More than five years	272,670	4,000	25,237	(5,027)	296,880
	1,675,443	53,153	163,385	(51,745)	1,840,236
Less discounts and allowances	(125,129)	(4,293)	(10,289)	—	(139,711)
PLEDGES RECEIVABLE, NET	**$ 1,550,314**	**$ 48,860**	**$ 153,096**	**$ (51,745)**	**$ 1,700,525**
2020					
One year or less	$ 286,750	$ 29,932	$ 40,841	$ (14,227)	$ 343,296
Between one year and five years	879,389	18,116	55,139	(29,316)	923,328
More than five years	338,056	4,687	25,658	(10,250)	358,151
	1,504,195	52,735	121,638	(53,793)	1,624,775
Less discounts and allowances	(134,778)	(5,339)	(12,192)	—	(152,309)
PLEDGES RECEIVABLE, NET	**$ 1,369,417**	**$ 47,396**	**$ 109,446**	**$ (53,793)**	**$ 1,472,466**

5. Loans Receivable

Loans receivable consist primarily of University student loans receivable and faculty and staff mortgages. University management regularly assesses the adequacy of the allowance for credit losses of its loans by performing ongoing evaluations considering the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans and the value of any collateral.

STUDENT LOANS RECEIVABLE

Student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan losses at August 31, 2021 and 2020, in thousands of dollars, are as follows:

	2021	2020
Institutional loans	$ 29,593	$ 28,975
Federally-sponsored loans	13,804	18,065
	43,397	47,040
Less allowance for student loan losses	(698)	(951)
STUDENT LOANS RECEIVABLE, NET	**$ 42,699**	**$ 46,089**

Institutional loans are funded by donor funds restricted for student loan purposes and University funds made available to meet demand for student loan borrowing in specific situations.

Federally-sponsored loans are funded by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). During the years ended August 31, 2021 and 2020, the University returned $6.2 million and $16.4 million of Program funds to the U.S. Department of Education, respectively. Loans to students under the Program are subject to mandatory interest rates and significant restrictions and can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Amounts received under the Program are ultimately refundable to the federal government in the event the University no longer participates in the Program, and accordingly, have been reported as an obligation in the *Consolidated Statements of Financial Position* as "U.S. government refundable loan funds." The Program expired in September 2017 and the University is no longer issuing new loans under the Program.

FACULTY AND STAFF MORTGAGES

In a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance, primarily in the form of subordinated loans. The loans and mortgages are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Notes receivable amounting to $877.4 million and $812.8 million at August 31, 2021 and 2020, respectively, from University faculty and staff are included in "faculty and staff mortgages and other loans receivable, net" in the *Consolidated Statements of Financial Position*. Management has determined that no allowance is necessary.

The August 31, 2021 and 2020 amounts are net of $204.1 million and $190.7 million, respectively, offset against the University's recorded obligation to repurchase certain residential units sold under long-term restricted ground leases. See the *Repurchase Obligations* section of *Note 1*.

6. Investments

Investments are measured and recorded at fair value. The valuation methodology, investment categories, fair value hierarchy, certain investment activities and related commitments for fiscal years 2021 and 2020 are presented below. Investments held by Stanford at August 31, 2021 and 2020, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2021					
Investment assets:					
Cash and short-term investments	$ 717,827	$ 67,096	$ 3,215	$ —	$ 788,138
Collateral held for securities loaned	9,847	—	—	—	9,847
Public equities	11,361,826	1,211,571	67,336	—	12,640,733
Derivatives	(5,464)	—	—	—	(5,464)
Fixed income	4,222,821	841,098	99,464	—	5,163,383
Real estate	9,101,686	—	10,270	—	9,111,956
Natural resources	1,685,968	—	6,543	—	1,692,511
Private equities	16,913,363	—	43,086	—	16,956,449
Absolute return	6,758,761	—	26,232	—	6,784,993
Assets held by other trustees	149,531	—	19,650	—	169,181
Other	706,970	20,848	—	—	727,818
Total	51,623,136	2,140,613	275,796	—	54,039,545
Hospitals' funds invested in the University's investment pools	(3,622,055)	2,522,127	1,092,536	7,392	—
INVESTMENTS AT FAIR VALUE	**$48,001,081**	**$ 4,662,740**	**$ 1,368,332**	**$ 7,392**	**$ 54,039,545**
Investment liabilities:					
Income beneficiary share of split interest agreements[1]	$ 728,530	$ —	$ —	$ —	$ 728,530
Net investment income excise tax	233,057	—	—	—	233,057
Securities lending[2]	9,847	—	—	—	9,847
Accrued management fees	3,322	—	—	—	3,322
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 974,756**	**$ —**	**$ —**	**$ —**	**$ 974,756**

[1] *See split-interest agreements section in Note 1*

[2] *Investments at fair value include $9.4 million of securities pledged or on loan.*

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
Investment assets:					
Cash and short-term investments	$ 1,957,811	$ 62,164	$ 2,913	$ —	$ 2,022,888
Collateral held for securities loaned	454	—	—	—	454
Public equities	8,238,932	417,645	54,810	—	8,711,387
Derivatives	(63,415)	—	—	—	(63,415)
Fixed income	2,427,103	207,265	97,433	—	2,731,801
Real estate	8,559,129	—	7,899	—	8,567,028
Natural resources	1,345,084	—	7,184	—	1,352,268
Private equities	10,811,362	—	26,389	—	10,837,751
Absolute return	5,719,253	—	21,967	—	5,741,220
Assets held by other trustees	126,349	—	16,889	—	143,238
Other	874,321	8,454	1,845	—	884,620
Total	39,996,383	695,528	237,329	—	40,929,240
Hospitals' funds invested in the University's investment pools	(2,421,800)	1,604,319	810,090	7,391	—
INVESTMENTS AT FAIR VALUE	**$37,574,583**	**$ 2,299,847**	**$ 1,047,419**	**$ 7,391**	**$ 40,929,240**
Investment liabilities:					
Income beneficiary share of split interest agreements[1]	$ 610,409	$ —	$ —	$ —	$ 610,409
Net investment income excise tax	84,592	—	—	—	84,592
Securities lending[2]	454	—	—	—	454
Securities sold, not yet purchased	277,949	—	—	—	277,949
Accrued management fees	29,492	—	—	—	29,492
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 1,002,896**	**$ —**	**$ —**	**$ —**	**$ 1,002,896**

[1] *See split-interest agreements section in Note 1*

[2] *Investments at fair value include $445 thousand of securities pledged or on loan.*

VALUATION METHODOLOGY

To the extent available, Stanford's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. Stanford's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally interests in limited partnerships or similar investments in private equity, real estate, natural resources, public equities and absolute return funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by external investment managers in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for any investment-related transactions such as capital calls or distributions and significant known valuation changes of its related portfolio through August 31, 2021 and 2020, respectively. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The University exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers and believes its proportionate share of the carrying amount of these alternative investments is a reasonable estimate of fair value. Such due diligence procedures include, but are not limited to, ongoing communication, on-site visits, and review of information from external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is determined by consideration of a range of factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuations.

For certain alternative investments which are direct investments, Stanford considers various factors to estimate fair value, such as, but not limited to, the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections, as well as discounted cash flow analysis. The selection of an appropriate valuation technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, Stanford may review the investment's underlying portfolio as well as engage external appraisers, depending on the circumstances and the nature of the investment.

The investment portfolio may be exposed to various risks, including, but not limited to, interest rate, market, sovereign, geographic, counterparty, liquidity and credit risk. Stanford management regularly assesses these risks through established policies and procedures. Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. Actual results could differ from these estimates and such differences could have a material impact on the *Consolidated Financial Statements*.

INVESTMENT CATEGORIES

Investments are categorized by asset class and valued as described below:

Cash and short-term investments include cash, cash equivalents, mutual funds, and fixed income investments with original maturities of less than one year (see also *Note 1*). Cash equivalents such as money market funds and overnight repurchase agreements are carried at cost. Fixed income investments such as short-term U.S. Treasury bills are carried at amortized cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these assets approximates fair value. Cash may include collateral provided to or received from counterparties associated with investment-related derivative contracts (see *Note 7*).

Collateral held for securities loaned is generally received in the form of cash and cash equivalents and is reinvested for income in cash equivalent vehicles. These investments are recorded at fair value.

Public equities are investments valued based on quoted market prices (and exchange rates, if applicable) on the last trading date of the principal market on or before August 31. They include investments that are directly held as well as commingled funds which invest in publicly traded equities. The fair values of public equities held through alternative investments are reported by the respective external investment managers using NAV, as a practical expedient, as described in the *Valuation Methodology* section above.

Derivatives are used by Stanford to manage its exposure to certain risks relating to ongoing business and investment operations. Derivatives may include swaps and forward currency contracts which are reflected at fair value by using quantitative models that utilize multiple market inputs. The market inputs are actively quoted and can be validated through external sources, including market transactions, brokers and third party pricing sources.

Fixed income investments are valued by independent pricing sources, broker dealers or pricing models that factor in, where applicable, recently executed transactions, interest rates, bond or credit default spreads and volatility. They primarily include investments that are actively traded fixed income securities or mutual funds.

Real estate represents directly owned real estate, mutual funds, interests in long-term ground leases and other real estate interests held through limited partnerships. A significant portion of the fair value of real estate directly owned by Stanford and subject to long-term ground leases, including the Stanford Shopping Center and the Stanford Research Park, is based on independent appraisals that use discounted cash flows and market data, if available. The fair value of alternative investments in real estate held through limited partnerships is based on the NAV reported by the external investment managers and is adjusted as described in the *Valuation Methodology* section above. The fair value of real estate held through commingled and mutual funds are based on quoted market prices.

Natural resources represent commodity and energy related investments held through both public and non-public investments. Public securities are valued based on quoted market prices (and exchange rates, if applicable) on the last trading day of the principal market on or before August 31. The fair value of direct non-public investments are based on a combination of models, including appraisals, discounted cash flows and commodity price factors. The fair value of natural resources held as alternative investments is based on the NAV reported by the external investment managers and is adjusted as described in the *Valuation Methodology* section above.

Private equities are investments primarily in venture capital and leveraged buyout strategies. Distributions from these investments are received in the form of either cash or distributed shares, which are typically valued using quoted market prices. The fair value of alternative investments is based on the NAV reported by the external investment managers and is adjusted as described in the *Valuation Methodology* section above.

Absolute return investments are typically commingled funds that employ multiple strategies to produce positive returns which may be uncorrelated to financial market activities. The fair value of these types of alternative investments is valued based on the NAV reported by the external investment managers and is adjusted as described in the *Valuation Methodology* section above.

Assets held by other trustees generally represent Stanford's residual (or beneficial) interest in split-interest agreements where the University, SHC or LPCH is not the trustee. The residual interest represents the present value of the future distributions expected to be received over the term of the agreement, which approximates fair value, and the assets are based on estimates provided by trustees.

Other investments are typically non-public investments such as preferred stocks, convertible notes and mineral rights. The fair value of these types of direct investments is determined as described in the *Valuation Methodology* section above.

LIABILITIES ASSOCIATED WITH INVESTMENTS

Income beneficiary share of split interest agreements - See the *Split–Interest Agreements* section of *Note 1*.

Net investment income excise tax - The TCJA was signed into law on December 22, 2017. Under the TCJA, 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 the Hospitals. The University has recorded current and deferred tax liabilities based on reasonable estimates.

Securities lending - The University has a collateralized borrowing program in which it receives short-term U.S. government obligations or cash and cash equivalents in exchange for transferring securities as collateral to the counterparty and recognizes an obligation to reacquire the securities for cash at the transaction's maturity. It is the University's policy to require receipt of collateral equal to a minimum of 102% of the fair market value of these collateralized borrowings. In the event the counterparty was to default on its obligations, The University has the right to repurchase the securities in the open market using the collateral received.

Under the securities lending agreement, securities loaned are primarily public equities, corporate bonds or U.S. Treasury bills and the agreement continues until the security is delivered back to the University. The estimated fair value of securities loaned at August 31, 2021 and 2020 was $9.4 million and $445 thousand, respectively. The University received on loan publicly traded equities of $9.8 million and $454 thousand at August 31, 2021 and 2020, respectively.

Securities sold, not yet purchased are obligations to acquire and deliver to the lenders the publicly traded securities identical to the ones borrowed. A realized gain or loss is recognized for the difference between the proceeds and the cost of such securities at that time.

Accrued management fees are obligations related to management and performance fees due quarterly or annually to external investment managers in accordance with agreed-upon terms.

Pending trades of securities are obligations arising from trades of securities purchased but not settled. These are usually settled three business days after the trade date.

FAIR VALUE HIERARCHY

U.S. GAAP defines fair value as the price received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants. Current guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques used under U.S. GAAP must maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 - Investments whose values are based on quoted market prices in active markets for identical assets or liabilities are classified as Level 1. Level 1 investments include active listed equities and certain short term fixed income securities. Such investments are valued based upon the closing price quoted on the last trading date on or before the reporting date on the principal market, without adjustment.

Level 2 - Investments that trade in markets that are not actively traded, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources for similar assets or liabilities are classified as Level 2. These investments include certain U.S. government and sovereign obligations, government agency obligations, investment grade corporate bonds and certain limited marketable securities.

Privately negotiated over-the-counter (OTC) derivatives such as forward currency contracts, total return swaps, and interest rate swaps are typically classified as Level 2 (see *Note 7*). In instances where quotations received from counterparties or valuation models are used, the value of an OTC derivative depends upon the contractual terms of the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, or credit curves.

Level 3 - Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information available and may require significant management judgment. These investments primarily consist of Stanford's direct real estate and alternative investments.

The following tables summarize Stanford's investment assets and liabilities within the fair value hierarchy and asset categories at August 31, 2021 and 2020, in thousands of dollars:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2021				
Investment assets:				
Cash and short-term investments	$ 100,821	$ 680,224	$ —	$ 781,045
Collateral held for securities loaned	—	9,847	—	9,847
Public equities	3,759,859	7,028	—	3,766,887
Derivatives	—	(5,464)	—	(5,464)
Fixed income	1,198,382	3,962,700	—	5,161,082
Real estate	256,286	—	6,985,383	7,241,669
Natural resources	155,430	—	125,178	280,608
Private equities	484,310	146	7,289	491,745
Absolute return	—	—	16,662	16,662
Assets held by other trustees	—	—	169,182	169,182
Other	13,161	12,179	688,743	714,083
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 5,968,249**	**$ 4,666,660**	**$ 7,992,437**	**18,627,346**
Investments measured using Net Asset Value[1]				35,412,199
TOTAL CONSOLIDATED INVESTMENT ASSETS				**$ 54,039,545**
Investment liabilities:				
Income beneficiary share of split interest agreements	$ —	$ 728,530	$ —	$ 728,530
Net investment income excise tax	233,057	—	—	233,057
Securities lending	—	9,847	—	9,847
Accrued management fees	3,322	—	—	3,322
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 236,379**	**$ 738,377**	**$ —**	**$ 974,756**

[1] Entities may estimate the fair value of certain investments by using NAV as a practical expedient as of the measurement date. Investments measured under this method are not categorized in the fair value hierarchy. The fair value amounts of such investments are presented for reconciliation purposes.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2020				
Investment assets:				
Cash and short-term investments	$ 294,757	$ 1,721,489	$ —	$ 2,016,246
Collateral held for securities loaned	—	454	—	454
Public equities	1,921,948	4,499	—	1,926,447
Derivatives	—	(63,415)	—	(63,415)
Fixed income	540,219	2,191,582	—	2,731,801
Real estate	131,495	—	6,796,817	6,928,312
Natural resources	2,932	—	108,561	111,493
Private equities	28,590	—	539	29,129
Absolute return	912	—	22,293	23,205
Assets held by other trustees	—	—	143,238	143,238
Other	140,825	357	731,284	872,466
INVESTMENTS SUBJECT TO FAIR VALUE LEVELING	**$ 3,061,678**	**$ 3,854,966**	**$ 7,802,732**	**14,719,376**
Investments measured using Net Asset Value[1]				26,209,864
TOTAL CONSOLIDATED INVESTMENT ASSETS				**$ 40,929,240**
Investment liabilities:				
Income beneficiary share of split interest agreements	$ —	$ 610,409	$ —	$ 610,409
Net investment income excise tax	84,592	—	—	84,592
Securities lending	—	454	—	454
Securities sold, not yet purchased	277,949	—	—	277,949
Accrued management fees	29,492	—	—	29,492
LIABILITIES ASSOCIATED WITH INVESTMENTS	**$ 392,033**	**$ 610,863**	**$ —**	**$ 1,002,896**

[1] *Entities may estimate the fair value of certain investments by using NAV as a practical expedient as of the measurement date. Investments measured under this method are not categorized in the fair value hierarchy. The fair value amounts of such investments are presented for reconciliation purposes.*

SUMMARY OF LEVEL 3 INVESTMENT ACTIVITIES AND TRANSFERS

The following tables present the activities for Level 3 investments for the years ended August 31, 2021 and 2020, in thousands of dollars:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2020	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2021
Real estate	$ 6,796,817	$ 124,463	$ (6,502)	$ 70,605	$ —	$ —	$ 6,985,383
Natural resources	108,561	1,561	(29,456)	44,512	—	—	125,178
Private equities	539	175	—	6,575	—	—	7,289
Absolute return	22,293	—	—	(5,631)	—	—	16,662
Assets held by other trustees	143,238	1,129	(1,332)	26,024	123	—	169,182
Other	731,284	31,973	(77,180)	45,150	—	(42,484)	688,743
TOTAL	**$ 7,802,732**	**$ 159,301**	**$ (114,470)**	**$ 187,235**	**$ 123**	**$ (42,484)**	**$ 7,992,437**

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	BEGINNING BALANCE AS OF SEPTEMBER 1, 2019	PURCHASES AND ADDITIONS	SALES AND MATURITIES	NET REALIZED AND UNREALIZED GAINS (LOSSES)	TRANSFERS IN*	TRANSFERS OUT*	ENDING BALANCE AS OF AUGUST 31, 2020
Real estate	$ 6,748,672	$ 76,462	$ (14,443)	$ (13,874)	$ —	$ —	$ 6,796,817
Natural resources	141,240	594	(2,394)	(30,879)	—	—	108,561
Private equities	1,263	—	(206)	(518)	—	—	539
Absolute return	25,911	—	—	(3,618)	—	—	22,293
Assets held by other trustees	140,011	1,535	(1,613)	3,473	—	(168)	143,238
Other	733,032	54,084	(32,836)	(10,707)	—	(12,289)	731,284
TOTAL	**$ 7,790,129**	**$ 132,675**	**$ (51,492)**	**$ (56,123)**	**$ —**	**$ (12,457)**	**$ 7,802,732**

**Transfers in (out) are primarily due to reclassification of investments between asset classes and changes in the fair value hierarchy.*

Net realized and unrealized gains (losses) in the tables above are included in the *Consolidated Statements of Activities* primarily as increases or decreases in reinvested gains by level of restriction. For the years ended August 31, 2021 and 2020, the change in unrealized gains (losses) for Level 3 investments still held at August 31, 2021 and 2020 was $231.8 million and $1.2 million, respectively.

LEVEL 3 INVESTMENT VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table summarizes the significant unobservable inputs and valuation methodologies for Level 3 investments as of August 31, 2021 and 2020, in thousands of dollars.

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[1]	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE MIN	RANGE MAX	WEIGHTED AVERAGE	IMPACT TO VALUATION FROM AN INCREASE IN INPUT[2]
2021							
Real estate	$ 6,073,613	Discounted cash flow	Discount rate	4.7 %	20.0 %	7.2%	Decrease
			Capitalization rate	5.5 %	8.0 %	6.1%	Decrease
Assets held by other trustees	149,532	Net present value	Discount rate	1.2 %	1.2 %	N/A	Decrease
Other	691,366	Market comparables	Recent transactions	N/A	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$ 6,914,511**						
2020							
Real estate	$ 6,003,980	Discounted cash flow	Discount rate	4.0 %	20.0 %	7.1%	Decrease
			Capitalization rate	5.5 %	9.0 %	6.6%	Decrease
Assets held by other trustees	126,349	Net present value	Discount rate	0.4 %	0.4 %	N/A	Decrease
Other	678,484	Market comparables	Recent transactions	N/A	N/A	N/A	N/A
TOTAL AMOUNT WITH SIGNIFICANT UNOBSERVABLE INPUTS	**$ 6,808.813**						

[1] $1.0 billion and $968.4 million of Level 3 investments at August 31, 2021 and 2020, respectively, are valued using third-party valuations, other market comparables or recent transactions as an approximation of fair value.

[2] Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would have resulted from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant increases and decreases in these unobservable inputs in isolation would result in significantly higher or lower fair value measurements.

INVESTMENT-RELATED COMMITMENTS

The University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. The following table presents significant terms of such agreements including redemption terms, notice periods, and remaining life for all related alternative investments at August 31, 2021, in thousands of dollars:

ASSET CLASS	FAIR VALUE	UNFUNDED COMMITMENT	REMAINING LIFE (YEARS)	REDEMPTION TERMS
Public equities	$ 8,826,899	$ 44,034	0 to 5	Generally, lock-up provisions ranging from 0 to 3 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
Real estate	1,897,817	1,255,774	0 to 9	Not eligible for redemption
Natural resources	1,507,840	620,941	0 to 9	Not eligible for redemption
Private equities	16,602,400	4,493,174	0 to 20	Not eligible for redemption
Absolute return	6,758,761	532,956	0 to 3	Generally, lock-up provisions ranging from 0 to 3 years. After initial lock up expires, redemptions are available on a rolling basis and require 30 to 90 days prior notification.
TOTAL	**$35,593,717**	**$ 6,946,879**		

OFFSETS TO INVESTMENT-RELATED ASSETS AND LIABILITIES

Financial instruments with off-balance sheet risk such as derivatives, securities lending agreements, securities sold, not yet purchased and repurchase agreements are subject to counterparty credit risk. The University seeks to control this risk in various ways, such as entering into transactions with counterparties with high creditworthiness, establishing and monitoring credit limits, and requiring collateral in certain situations.

The University generally maintains master netting agreements and collateral agreements with its counterparties. These agreements provide the University the right to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty, in the event of default by the counterparty, such as bankruptcy or a failure to pay or perform. For certain derivatives, a master netting arrangement allows the counterparty to net any of its applicable liabilities or payment obligations to the University against any collateral previously provided or received (see *Note 7*).

The University may enter into repurchase and reverse repurchase agreements to sell or purchase securities to or from the counterparty with an agreement to repurchase or sell the same securities from or to the counterparty at a predetermined price.

The following table presents information about the gross amounts of assets and liabilities, the offset of these instruments and the related collateral amounts as of August 31, 2021 and 2020, in thousands of dollars:

	GROSS AMOUNTS OF ASSETS AND LIABILITIES	OFFSET AMOUNTS	NET AMOUNTS	COLLATERAL RECEIVED (PLEDGED)[2]	NET EXPOSURE
2021					
Assets:					
Derivatives[1]	$ 2	$ (5,466)	$ (5,464)	$ (5,464)	$ —
Repurchase agreements[3]	132,142	—	132,142	132,142	—
TOTAL	**132,144**	**(5,466)**	**126,678**	**126,678**	**—**
Liabilities:					
Derivatives[1]	5,466	(5,466)	—	—	—
Securities lending	9,847	—	9,847	(9,847)	—
TOTAL	**$ 15,313**	**$ (5,466)**	**$ 9,847**	**$ (9,847)**	**$ —**
2020					
Assets:					
Derivatives[1]	$ 2,925	$ (66,340)	$ (63,415)	$ (63,415)	$ —
Repurchase agreements[3]	585,945	—	585,945	585,945	—
TOTAL	**588,870**	**(66,340)**	**522,530**	**522,530**	**—**
Liabilities:					
Derivatives[1]	66,340	(66,340)	—	—	—
Securities sold, not yet purchased	277,949	—	277,949	(277,949)	—
Securities lending	454	—	454	(454)	—
TOTAL	**$ 344,743**	**$ (66,340)**	**$ 278,403**	**$ (278,403)**	**$ —**

[1] *Gross derivative assets less gross derivative liabilities are presented as "derivatives" in the investment assets table.*

[2] *These collateral amounts received (pledged) are limited to the asset balance and accordingly, do not include any excess collateral received.*

[3] *Repurchase agreements are included in "Cash and short-term investments" in the investment assets table.*

INVESTMENT RETURNS

Total investment returns for the years ended August 31, 2021 and 2020, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Investment income	$ 263,205	$ 76,578	$ 2,869	$ 342,652
Net realized and unrealized gains	10,884,804	808,700	357,325	12,050,829
TOTAL INVESTMENT RETURNS, NET	**$ 11,148,009**	**$ 885,278**	**$ 360,194**	**$ 12,393,481**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,731,388	$ 1,095	$ 18,799	$ 1,751,282
Increase in reinvested gains:				
Without donor restrictions	4,468,169	871,876	208,623	5,548,668
With donor restrictions	4,676,143	12,307	129,446	4,817,896
Change in value of split-interest agreements, net	119,227	—	3,326	122,553
Adjustments for actuarial re-evaluations and maturities of split-interest agreements	153,082	—	—	153,082
TOTAL INVESTMENT RETURNS, NET	**$ 11,148,009**	**$ 885,278**	**$ 360,194**	**$ 12,393,481**
2020				
Investment income	$ 265,902	$ 65,873	$ 3,244	$ 335,019
Net realized and unrealized gains	2,442,886	163,510	98,974	2,705,370
TOTAL INVESTMENT RETURNS, NET	**$ 2,708,788**	**$ 229,383**	**$ 102,218**	**$ 3,040,389**
Reconciliation to *Statements of Activities:*				
Total investment income distributed for operations	$ 1,642,193	$ 1,533	$ 17,390	$ 1,661,116
Increase in reinvested gains:				
Without donor restrictions	516,024	224,036	52,070	792,130
With donor restrictions	484,730	3,814	30,879	519,423
Change in value of split-interest agreements, net	14,414	—	1,879	16,293
Adjustments for actuarial re-evaluations and maturities of split-interest agreements	51,427	—	—	51,427
TOTAL INVESTMENT RETURNS, NET	**$ 2,708,788**	**$ 229,383**	**$ 102,218**	**$ 3,040,389**

Investment returns are net of investment management expenses, including both external management fees and internal University investment-related salaries, benefits and operating expenses, and the portion of interest expense and amortization related to the April 2009 bond issuance held for liquidity purposes (see *Note 9*).

FUTURE MINIMUM RENTAL INCOME

As part of its investment portfolio, Stanford holds certain investment properties that it leases to third parties. Future minimum rental income due from the Stanford Shopping Center, the Stanford Research Park and other properties under non-cancellable leases in effect with tenants at August 31, 2021, in thousands of dollars, is as follows:

	FUTURE MINIMUM RENTAL INCOME			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2022	$ 154,633	$ 3,640	$ 1,728	$ 160,001
2023	148,604	2,480	906	151,990
2024	130,295	1,706	563	132,564
2025	111,070	681	308	112,059
2026	102,632	162	214	103,008
Thereafter	2,394,641	8,750	127	2,403,518
TOTAL	**$ 3,041,875**	**$ 17,419**	**$ 3,846**	**$ 3,063,140**

7. Derivatives

Stanford, directly or through external investment managers on Stanford's behalf, utilizes various strategies to reduce investment and credit risks, to serve as a temporary surrogate for investment in stocks and bonds, to manage interest rate exposure on debt, and/or to manage specific exposure to foreign currencies. Futures, options and other derivative instruments are used to adjust elements of investment exposures to various securities, sectors, markets and currencies without actually taking a position in the underlying asset or basket of assets. Interest rate swaps are used to manage interest rate risk. With respect to foreign currencies, Stanford utilizes forward contracts and foreign currency options to manage exchange rate risk.

INVESTMENT-RELATED DERIVATIVES

The following table presents amounts for investment-related derivatives, including the notional amount, the fair values at August 31, 2021 and 2020, and gains and losses for the years ended August 31, 2021 and 2020, in thousands of dollars:

	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE ASSETS[2]	GROSS DERIVATIVE LIABILITIES[2]	REALIZED AND UNREALIZED LOSSES[3]
2021	AS OF AUGUST 31			YEAR ENDED AUGUST 31
Foreign exchange contracts	$ 13,466	$ 2	$ 209	$ (1,049)
Equity contracts[4]	379,694	—	5,257	(80,118)
TOTAL	**$ 393,160**	**$ 2**	**$ 5,466**	**$ (81,167)**
2020				
Foreign exchange contracts	$ 11,432	$ 405	$ 13	$ (2,283)
Equity contracts[4]	635,463	2,520	66,327	(58,065)
TOTAL	**$ 646,895**	**$ 2,925**	**$ 66,340**	**$ (60,348)**

[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2021 and 2020.

[2] Gross derivative assets less gross derivative liabilities of $(5.5)million and $(63.4) million as of August 31, 2021 and 2020, respectively, are presented as "derivatives" on the investment table in Note 6.

[3] Losses on derivatives are included in the Statements of Activities line "increase in reinvested gains" in "non-operating activities."

[4] Included in equity contracts are fair value hedging derivatives with a fair value of $0 and $(59.2) million as of August 31, 2021 and 2020, respectively. The realized and unrealized gains and (losses) related to these equity contracts were $28.2 million and $(85.0) million for the years ended August 31, 2021 and 2020, respectively.

DEBT-RELATED DERIVATIVES

The University and SHC use interest rate exchange agreements to manage the interest rate exposure of their debt portfolios. Under the terms of the current agreements, the entities pay a fixed interest rate, determined at inception, and receive a variable rate on the underlying notional principal amount. Generally, the exchange agreements require mutual posting of collateral by the University and SHC and the counterparties if the termination values exceed a predetermined threshold dollar amount.

At August 31, 2021, the University had interest rate exchange agreements related to $97.0 million of the outstanding balance of the CEFA Series S bonds in variable rate mode (see *Note 9*). The agreements, which have a weighted average interest rate of 3.68%, expire November 1, 2039. The notional amount and the fair value of the exchange agreements are included in the table below. Collateral posted with various counterparties was $22.3 million and $36.5 million at August 31, 2021 and 2020, respectively, and is included in the *Consolidated Statements of Financial Position*. In addition, the University issued an irrevocable standby letter of credit of $15.0 million to support collateral requirements at August 31, 2021 and 2020 (see *Note 9*).

At August 31, 2021, SHC had interest rate exchange agreements expiring through November 2051 (see *Note 9*). The agreements require SHC to pay fixed interest rates to the counterparties varying from 3.37% to 4.08% in exchange for variable rate payments from the counterparties based on a percentage of the One Month London Interbank Offered Rate (LIBOR). The notional amount and the fair value of the exchange agreements are included in the table below. There was cash collateral required to be posted with counterparties at August 31, 2021 and 2020 of $21.2 million and $52.3 million, respectively.

The following table presents amounts for debt-related derivatives including the notional amount, the fair values at August 31, 2021 and 2020, and gains and losses for the years ended August 31, 2021 and 2020, in thousands of dollars:

	AS OF AUGUST 31, 2021		YEAR ENDED AUGUST 31, 2021	AS OF AUGUST 31, 2020		YEAR ENDED AUGUST 31, 2020
	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED GAINS (LOSSES)[3]	NOTIONAL AMOUNT[1]	GROSS DERIVATIVE LIABILITIES[2]	UNREALIZED LOSSES[3]
Debt-related interest-rate contracts:						
University	$ 97,000	$ 43,257	$ 10,557	$ 97,000	$ 53,815	$ (5,521)
SHC	574,025	285,654	(67,638)	574,700	353,292	(36,496)
TOTAL	**$ 671,025**	**$ 328,911**	**$ (57,081)**	**$ 671,700**	**$ 407,107**	**$ (42,017)**

[1] The notional amount is representative of the volume and activity of the respective derivative type during the years ended August 31, 2021 and 2020.
[2] Fair value is measured using Level 2 inputs as defined in Note 6. Amounts are included in the Statements of Financial Position in "accounts payable and accrued expenses" and discussed more fully in Note 9.
[3] Gains (losses) on derivatives are included in the Statements of Activities as "swap interest and change in value of swap agreements" in "non-operating activities".

8. Plant Facilities

Plant facilities, net of accumulated depreciation, at August 31, 2021 and 2020, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Land and improvements	$ 681,619	$ 77,368	$ 120,605	$ 879,592
Buildings and building improvements	9,619,090	3,817,842	1,930,883	15,367,815
Furniture, fixtures and equipment	2,122,470	1,650,865	483,032	4,256,367
Utilities	956,104	—	—	956,104
Construction in progress	319,317	387,419	39,446	746,182
	13,698,600	5,933,494	2,573,966	22,206,060
Less accumulated depreciation	(6,015,428)	(2,314,043)	(797,959)	(9,127,430)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 7,683,172**	**$ 3,619,451**	**$ 1,776,007**	**$ 13,078,630**
2020				
Land and improvements	$ 678,817	$ 76,495	$ 120,605	$ 875,917
Buildings and building improvements	9,135,323	3,799,636	1,924,900	14,859,859
Furniture, fixtures and equipment	2,056,812	1,546,599	469,868	4,073,279
Utilities	939,849	—	—	939,849
Construction in progress	476,690	293,180	27,558	797,428
	13,287,491	5,715,910	2,542,931	21,546,332
Less accumulated depreciation	(5,601,781)	(2,069,898)	(702,033)	(8,373,712)
PLANT FACILITIES, NET OF ACCUMULATED DEPRECIATION	**$ 7,685,710**	**$ 3,646,012**	**$ 1,840,898**	**$ 13,172,620**

At August 31, 2021, $2.5 billion, $1.4 billion, and $363.6 million of fully depreciated plant facilities were still in use by the University, SHC, and LPCH, respectively, and are included in plant facilities and accumulated depreciation in the above table.

9. Notes and Bonds Payable

Notes and bonds payable for the University, SHC, and LPCH at August 31, 2021 and 2020, in thousands of dollars, are presented in the table below. The University is not an obligor or guarantor with respect to any obligations of SHC or LPCH, nor are SHC or LPCH obligors or guarantors with respect to obligations of the University or each other.

	YEAR OF MATURITY	EFFECTIVE INTEREST RATE * 2021/2020	OUTSTANDING PRINCIPAL 2021	2020
UNIVERSITY:				
Tax-exempt:				
CEFA Fixed Rate Revenue Bonds:				
Series S	2040	3.18%	$ 30,210	$ 30,210
Series T	2023-2039	3.66%-4.30%	188,900	188,900
Series U	2032-2046	2.71%-4.25%	1,043,090	1,167,205
Series V	2029-2051	1.83%-3.12%	742,230	441,830
CEFA Variable Rate Revenue Bonds and Notes:				
Series L	2023	0.01%/0.07%	36,208	36,208
Series S	2040-2051	0.10%-0.12%/0.47%-0.90%	141,200	141,200
Commercial Paper		0.11%-0.21%	—	50,000
Taxable:				
Fixed Rate Notes and Bonds:				
Stanford University Bonds	2024	6.88%	150,000	150,000
Medium Term Note	2026	7.65%	50,000	50,000
Stanford University Series 2012	2042	4.01%	143,235	143,235
Stanford University Series 2013	2044	3.56%	150,115	150,115
Stanford University Series 2014	2054	4.25%	150,000	150,000
Stanford University Series 2015	2047	3.46%	250,000	250,000
Stanford University Series 2017	2048	3.65%	750,000	750,000
Stanford University Series 2019	2029	3.09%	121,000	121,000
Stanford University Series 2020	2027-2050	1.29%-2.41%	750,000	750,000
Other	2031	3.29%	480	3,480
Revolving Credit Facilities	2022-2024	0.43%	—	35,320
University notes and bonds payable			4,696,668	4,608,703
Unamortized issuance costs, premiums, and discounts, net			447,181	394,849
UNIVERSITY TOTAL			**$ 5,143,849**	**$ 5,003,552**
SHC:				
CHFFA Fixed Rate Revenue Bonds:				
2008 Series A-1	2021	3.84%	$ —	$ 675
2008 Series A-2	2022	3.81%/3.76%	450	1,450
2008 Series A-3	2022	3.81%/3.76%	375	1,175
2010 Series A	2021	3.84%	—	6,760
2012 Series A	2028-2051	3.98%	—	340,000
2012 Series B	2022-2023	2.52%/2.48%	14,985	21,795
2015 Series A	2052-2054	4.10%	100,000	100,000
2017 Series A	2022-2041	2.85%/2.84%	454,200	454,200
2020 Series A	2050	2.70%	170,120	170,120
2021 Series A	2025	0.42%	157,715	—
2018 Series Taxable Bonds	2049	3.80%	500,000	500,000
2020 Series Taxable Bonds	2030	3.31%	300,000	300,000
2021 Series Taxable Bonds	2051	3.03%	365,100	—
CHFFA Variable Rate Revenue Bonds:				
2008 Series B	2042-2046	0.07%/0.19%	168,200	168,200
2012 Series D	2021	0.67%	—	100,000
2015 Series B	2024	0.65%	—	75,000
SHC notes and bonds payable			2,231,145	2,239,375
Unamortized issuance costs, premiums, and discounts, net			87,635	101,533
SHC TOTAL			**$ 2,318,780**	**$ 2,340,908**
LPCH:				
CHFFA Fixed Rate Revenue Bonds:				
2012 Series A	2044-2051	4.32%/4.32%	$ 200,000	$ 200,000
2012 Series B	2013-2027	2.96%/2.91%	28,720	31,765
2014 Series A	2025-2043	3.84%/3.84%	100,000	100,000
2016 Series A	2016-2033	2.42%/2.36%	57,310	60,630
2016 Series B	2052-2055	3.34%/3.34%	100,000	100,000
2017 Series A	2019-2057	3.08%/3.06%	193,545	195,815
CHFFA Variable Rate Revenue Bonds:				
2014 Series B	2034-2043	0.46%/0.50%	100,000	100,000
Revolving Credit Facilities			—	30,000
LPCH notes and bonds payable			779,575	818,210
Unamortized issuance costs, premiums, and discounts, net			60,386	63,001
LPCH TOTAL			**$ 839,961**	**$ 881,211**
CONSOLIDATED TOTAL			**$ 8,302,590**	**$ 8,225,671**

Exclusive of interest rate exchange agreements (see Note 7).

The University borrows at tax-exempt rates through the California Educational Facilities Authority (CEFA), a conduit issuer. CEFA debt is a general unsecured obligation of the University. Although CEFA is the issuer, the University is responsible for the repayment of the tax-exempt debt. SHC and LPCH borrow at tax-exempt rates through the California Health Facilities Financing Authority (CHFFA). CHFFA debt is a general obligation of each of the hospitals. Payments of principal and interest on SHC's and LPCH's bonds are collateralized by a pledge of their respective revenues. Although CHFFA is the issuer, each hospital is responsible for the repayment of its respective tax-exempt debt.

The University's long-term ratings of AAA/Aaa/AAA were affirmed in March 2021 by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, respectively. In April 2021, SHC's long-term ratings were affirmed by S&P Global Ratings, Moody's Investors Service, and Fitch Ratings at AA-/Aa3/AA, respectively. LPCH's long-term ratings of A+/A1/AA- were affirmed by S&P Global Ratings and Moody's Investors Service in March 2021 and by Fitch Ratings in April 2021, respectively.

SHC and LPCH are each party to separate master trust indentures that include, among other requirements, limitations on the incurrence of additional indebtedness, liens on property, restrictions on disposition or transfer of assets and compliance with certain financial ratios. Subject to applicable no-call provisions, SHC and LPCH may cause the redemption of the bonds, in whole or in part, prior to the stated maturities.

UNIVERSITY

Debt issuances and repayment activity

In May 2021, CEFA Series U-5 bond in the amount of $124.1 million matured and was refunded with a portion of the proceeds of CEFA Series V-2.

In April 2021, the University issued tax-exempt fixed rate bonds CEFA Series V-2 in the amount of $300.4 million, maturing on April 1, 2051. The series was comprised of two tranches; the first tranche of $155.0 million with a coupon rate of 2.25% plus an original issue discount of $4.9 million and subject to an optional redemption at par on or after April 1, 2031; and the second tranche of $145.4 million with a coupon rate of 5.00% plus an original issue premium of $79.5 million and subject to an optional make-whole call redemption. The tranches have yields of 2.40% and 2.42%, respectively. The bonds carry dual Sustainability and Climate Bond Certified designations based on the use of proceeds and an assessment by an independent verification agent. Proceeds are being used to refinance CEFA Series U-5, and to finance or refinance certain capital projects of the University.

In June 2020, the University issued taxable fixed rate bonds (Series 2020 A) in the amount of $750.0 million. The series was comprised of $300.0 million maturing on June 1, 2027 and $450.0 million maturing on June 1, 2050 and bear interest yields of 1.29% and 2.41%, respectively. Proceeds from the taxable Series 2020 A are to be used for general University purposes.

The University has two unsecured revolving credit facilities with a $250.0 million and $175.0 million capacity, respectively. Funds drawn on the revolving credit facilities bear interest at a floating rate equal to the applicable LIBOR rate plus a specified margin. The amount outstanding on these credit facilities was $0 and $35.3 million at August 31, 2021 and 2020, respectively.

The University's taxable and tax-exempt commercial paper authorized borrowing capacity was $500.0 million and $300.0 million, respectively, at both August 31, 2021 and 2020. Tax-exempt commercial paper of $0 and $50.0 million was outstanding at August 31, 2021 and 2020, respectively. No taxable commercial paper was outstanding at the end of either fiscal year.

Variable rate debt subject to remarketing or tender

The University had $177.4 million of revenue bonds in variable rate mode outstanding at August 31, 2021. CEFA Series L bonds bear interest at a weekly rate and CEFA Series S bonds bear interest at a commercial paper municipal rate for various interest periods of 270 days or less. In the event the University receives notice of any optional tender of these bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a current obligation to purchase the bonds tendered. The University has identified several sources of funding including cash, money market funds, U.S. Treasury securities and agencies' discount notes to provide for the full and timely purchase price of any bonds tendered in the event of a failed remarketing.

Letters of credit

In December 2010, the University entered into a credit agreement and established a letter of credit facility under which the bank agreed to issue standby letters of credit in a principal amount not to exceed $50.0 million. In June 2018, the facility was raised to $75.0 million and in June 2020, the University decreased the facility to $65.0 million. At August 31, 2021, irrevocable standby letters of credit of $51.2 million were outstanding in the following amounts and for the following respective purposes: (1) $15.0 million to support collateral requirements under certain interest rate exchange agreements discussed in *Note 7*; (2) $32.1 million to serve as security for workers' compensation deductible insurance arrangements; and (3) $4.1 million for other purposes. No amounts have been drawn on these letters of credit at August 31, 2021.

SHC

Debt issuances and repayment activity

In April 2021, CHFFA, on behalf of SHC, issued fixed rate revenue bonds (2021 Series A) in the aggregate principal amount of $157.7 million plus an original issue premium of $17.3 million. The bonds have a mandatory put date on August 15, 2025. Proceeds of the 2021 Series A bonds were used to refund the 2012 Series D and 2015 Series B bonds previously issued by CHFFA for the benefit of SHC.

In April 2021, SHC issued the 2021 Taxable Bonds in the amount of $365.1 million. The bonds bear interest at a coupon rate of 3.03% and mature on August 15, 2051. Proceeds were used to advance refund the 2012 Series A bonds previously issued by CHFFA for the benefit of SHC. All advance refunded bonds are considered extinguished.

In April 2021, SHC established a $150.0 million taxable commercial paper facility to be used for general corporate purposes. No amount was outstanding as of August 31, 2021.

In May 2020, at SHC's request and subsequent to the end of the original index floating rate period, US Bank extended its ownership of the $100.0 million 2012 Series D Bonds at a new index floating rate period.

In May 2020, SHC extended its $200.0 million revolving line of credit facility until May 2021. In November 2020, SHC extended its revolving line of credit facility to November 2021 and reduced its size to $150.0 million, of which $50.0 million is earmarked for the issuance of stand-by letters of credit. Drawdowns from the revolving credit facility bear interest at a floating rate equal to the applicable LIBOR plus a specified spread. No amounts were outstanding as of August 31, 2021 or August 31, 2020.

In April 2020, CHFFA, on behalf of SHC, issued fixed rate revenue bonds (2020 Series A) in the aggregate principal amount of $170.1 million plus an original issue premium of $19.9 million. Proceeds of the 2020 Series A Bonds were used to finance certain costs of the New Stanford Hospital project and refund the 2012 Series C variable rate revenue bonds.

In April 2020, SHC issued 2020 taxable fixed rate bonds in the amount of $300.0 million. The bonds bear interest at a coupon rate of 3.31% and mature on August 15, 2030. Proceeds are available for general corporate purposes.

Variable rate debt subject to remarketing or tender

At August 31, 2021, SHC had $168.2 million of revenue bonds in variable rate mode outstanding. The 2008 Series B-1 bonds bear interest at a weekly rate, and bondholders have the option to tender their bonds on a weekly basis. The 2008 Series B-2 bonds bear interest at the commercial paper rate for each commercial paper period of 270 days or less. Bondholders in commercial paper mode have the option to tender their bonds only at the end of the commercial paper rate period.

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

Letters of credit

At August 31, 2021, SHC had irrevocable standby letters of credit in the aggregate amount of $25.4 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $23.2 million to serve as security for the workers' compensation self-insurance arrangement and (ii) $2.2 million to serve as security deposits for certain construction projects being undertaken by SHC. No amounts have been drawn on these letters of credit at August 31, 2021 and 2020.

LPCH

Debt activity

In April 2021, CHFFA completed, on behalf of LPCH, the pricing of Forward Delivery 2022 Series A Bonds in the aggregate principal amount of $206.7 million that is expected to settle in May 2022. Proceeds of the 2022 Series A bonds will be used for the legal defeasance and redemption of 2012 Series A and B bonds and to pay a portion of the costs of issuance.

LPCH has a $200.0 million revolving credit facility with Bank of America which was set to expire in November 2022. There was $0 and $30.0 million drawn on the line of credit as of August 31, 2021 and 2020, respectively.

Letters of credit

At August 31, 2021, LPCH had irrevocable standby letters of credit in the aggregate amount of $9.4 million posted with certain beneficiaries in the following amounts and for the following respective purposes: (i) $8.0 million to serve as security for the workers' compensation self-insurance arrangement, and (ii) $1.4 million to serve as security deposits for construction, operation and maintenance of certain utility facilities. No amounts have been drawn on these letters of credit at August 31, 2021 and 2020.

INTEREST

Stanford's interest expense, which includes settlements under the interest rate exchange agreements, amortized bond issuance costs and amortized bond premium or discount is recorded in "other operating expenses". Interest expense for the years ended August 31, 2021 and 2020 , in thousands of dollars, is as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Interest expense, gross	$ 159,912	$ 73,309	$ 31,982	$ 265,203
Less:				
Interest income earned on unspent proceeds	(48)	—	—	(48)
Interest capitalized as a cost of construction	(4,580)	—	—	(4,580)
Interest expense which is classified as an investment expense	(4,345)	—	—	(4,345)
INTEREST EXPENSE, NET	**$ 150,939**	**$ 73,309**	**$ 31,982**	**$ 256,230**
2020				
Interest expense, gross	$ 148,563	$ 69,255	$ 33,394	$ 251,212
Less:				
Interest income earned on unspent proceeds	(2,031)	—	—	(2,031)
Interest capitalized as a cost of construction	(24,190)	(4,710)	—	(28,900)
Interest expense which is classified as an investment expense	(5,916)	—	—	(5,916)
INTEREST EXPENSE, NET	**$ 116,426**	**$ 64,545**	**$ 33,394**	**$ 214,365**

The University and SHC use interest rate exchange agreements to manage the interest rate exposure of their debt portfolios. University net payments on interest rate exchange agreements were $3.5 million and $2.8 million for the years ended August 31, 2021 and 2020, respectively. SHC net payments on interest rate exchange agreements were $21.4 million and $17.2 million for the years ended August 31, 2021 and 2020, respectively.

PRINCIPAL PAYMENTS

At August 31, 2021, scheduled principal payments on notes and bonds, in thousands of dollars, are as follows:

	PRINCIPAL PAYMENTS			
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2022 Variable debt subject to remarketing	$ 177,408	$ 168,200	$ —	$ 345,608
2022 Other	—	15,505	9,045	24,550
2023	51,765	17,065	9,490	78,320
2024	150,000	13,475	9,980	173,455
2025	—	175,330	10,405	185,735
2026	75,360	18,480	10,920	104,760
Thereafter	4,242,135	1,823,090	729,735	6,794,960
TOTAL	**$4,696,668**	**$2,231,145**	**$ 779,575**	**$ 7,707,388**

10. Net Assets

Net assets without donor restrictions include Board-designated funds functioning as endowment *(see Note 11)*, net investment in plant facilities and other operating funds.

Net assets with donor restrictions consist primarily of endowment gifts that are limited for long-term investment, and accumulated appreciation that may be appropriated for expenditure by the University (see *Note 11*). Net assets with donor restrictions also include gifts and pledges that are subject to donor-imposed restrictions that expire with the passage of time, payment of pledges, and/or actions of the University, and other funds including Stanford's net equity in split-interest agreements and student loans.

Net assets at August 31, 2021 and 2020, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2021					
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Board designated endowment - Funds functioning as endowment	$ 17,556,924	$ —	$ 162,832	$ —	$ 17,719,756
Net investment in plant facilities and other plant funds	4,597,835	2,086,049	936,046	—	7,619,930
Operating funds	5,347,454	3,607,109	1,278,290	(120,215)	10,112,638
Total net assets without donor restrictions	27,502,213	5,693,158	2,377,168	(120,215)	35,452,324
NET ASSETS WITH DONOR RESTRICTIONS					
Subject to expenditure for specified purpose:					
Gifts with undecided purpose restrictions	642,923	—	—	—	642,923
Plant facilities	157,218	10,353	57,512	—	225,083
Total	800,141	10,353	57,512	—	868,006
Subject to passage of time:					
Pledges receivable	794,845	48,860	86,913	—	930,618
Other funds	346,120	49,442	36,777	—	432,339
Total	1,140,965	98,302	123,690	—	1,362,957
Subject to University's spending policy:					
Accumulated appreciation	12,127,538	27,305	232,034	—	12,386,877
Subject to restrictions in perpetuity:					
Endowment funds	7,959,566	15,373	260,975	—	8,235,914
Pledges receivable	755,469	—	2,567	—	758,036
Other funds	330,344	—	—	—	330,344
Total	9,045,379	15,373	263,542	—	9,324,294
Total net assets with donor restrictions	23,114,023	151,333	676,778	—	23,942,134
TOTAL NET ASSETS	**$50,616,236**	**$5,844,491**	**$3,053,946**	**$ (120,215)**	**$ 59,394,458**

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Board designated endowment - Funds functioning as endowment	$ 13,707,220	$ —	$ 128,521	$ —	$ 13,835,741
Net investment in plant facilities and other plant funds	4,635,526	2,090,908	989,687	—	7,716,121
Operating funds	4,342,548	2,102,997	1,010,527	(101,159)	7,354,913
Total net assets without donor restrictions	22,685,294	4,193,905	2,128,735	(101,159)	28,906,775
NET ASSETS WITH DONOR RESTRICTIONS					
Subject to expenditure for specified purpose:					
Gifts with undecided purpose restrictions	522,996	—	—	—	522,996
Plant facilities	69,902	5,364	45,197	—	120,463
Total	592,898	5,364	45,197	—	643,459
Subject to passage of time:					
Pledges receivable	677,316	47,396	54,949	—	779,661
Other funds	280,489	49,534	38,501	—	368,524
Total	957,805	96,930	93,450	—	1,148,185
Subject to University's spending policy:					
Accumulated appreciation	7,674,107	16,616	121,883	—	7,812,606
Subject to restrictions in perpetuity:					
Endowment funds	7,435,236	14,633	248,855	—	7,698,724
Pledges receivable	692,101	—	3,068	—	695,169
Other funds	267,941	—	—	—	267,941
Total	8,395,278	14,633	251,923	—	8,661,834
Total net assets with donor restrictions	17,620,088	133,543	512,453	—	18,266,084
TOTAL NET ASSETS	**$40,305,382**	**$4,327,448**	**$2,641,188**	**$ (101,159)**	**$ 47,172,859**

11. Endowments

The University classifies a substantial portion of its financial resources as endowment, which is invested to generate income to support operating and strategic initiatives. The endowment, which includes endowed lands, is comprised of pure endowment funds, term endowment funds, and funds functioning as endowment (FFE). Depending on the nature of the donor's stipulation, these resources are recorded as net assets with donor restrictions or net assets without donor restrictions. Term endowments are similar to other endowment funds except that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. Accordingly, term endowments are classified as net assets with donor restrictions until expiration of the term. FFE are University resources designated by the Board as endowment and are invested for long-term appreciation and current income. These assets, however, remain available and may be spent at the Board's discretion. Accordingly, FFE are recorded as net assets without donor restrictions.

Stanford classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment with donor restrictions and (b) accumulations to the endowment with donor restrictions made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining accumulation to the endowment funds that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument, is classified as net assets with donor restrictions until those amounts are authorized for expenditure. The aggregate amount by which fair value was below historic value was $0 and $2.8 million at August 31, 2021 and 2020, respectively.

Endowment funds by net asset classification at August 31, 2021 and 2020, in thousands of dollars, are as follows:

	2021	2020
University endowment		
Endowment funds without donor restrictions:		
Funds functioning as endowment	$ 17,556,924	$ 13,707,220
Endowment funds with donor restrictions:		
Original donor-restricted gift amount and gains maintained in perpetuity	7,959,566	7,435,236
Term endowment and related gains	264,314	196,583
Additional accumulated gains available for expenditure, subject to spending policy	12,007,383	7,609,072
Total endowment funds with donor restrictions	20,231,263	15,240,891
University endowment	37,788,187	28,948,111
LPCH endowment		
Endowment funds without donor restrictions:		
Funds functioning as endowment	162,832	128,521
Endowment funds with donor restrictions	509,796	390,056
LPCH endowment	672,628	518,577
SHC endowment funds with donor restrictions	42,678	31,249
TOTAL ENDOWMENT FUNDS	**$ 38,503,493**	**$ 29,497,937**

Most of Stanford's endowment is invested in the MP. The return objective for the MP is to generate optimal long-term total return while maintaining an appropriate level of risk. Investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Portfolio asset allocation targets as well as expected risk, return and correlation among the asset classes are reevaluated regularly by Stanford Management Company.

UNIVERSITY

Changes in the University's endowment, excluding pledges, for the years ended August 31, 2021 and 2020, in thousands of dollars, are as follows:

	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
2021			
Endowment, beginning of year	$ 13,707,220	$ 15,240,891	$ 28,948,111
Total investment returns, net	3,420,540	5,341,069	8,761,609
Amounts distributed for operations	(541,050)	(789,103)	(1,330,153)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	405	371,678	372,083
Transfers of prior year gifts	5,303	59,159	64,462
EFP funds added to the endowment	1,302,134	—	1,302,134
Other funds added to (withdrawn from) the endowment, net	(337,628)	7,569	(330,059)
Total gifts, transfers and other changes in endowment	970,214	438,406	1,408,620
Total net increase in endowment	3,849,704	4,990,372	8,840,076
ENDOWMENT, END OF YEAR	**$ 17,556,924**	**$ 20,231,263**	**$37,788,187**
2020			
Endowment, beginning of year	$ 13,240,533	$ 14,459,301	$ 27,699,834
Total investment returns, net	874,236	1,237,640	2,111,876
Amounts distributed for operations	(534,497)	(820,561)	(1,355,058)
Gifts, transfers and other changes in endowment:			
Current year gifts and pledge payments	2,017	251,665	253,682
Transfers of prior year gifts	3,331	82,391	85,722
EFP funds added to the endowment	148,692	—	148,692
Other funds added to (withdrawn from) the endowment, net	(27,092)	30,455	3,363
Total gifts, transfers and other changes in endowment	126,948	364,511	491,459
Total net increase in endowment	466,687	781,590	1,248,277
ENDOWMENT, END OF YEAR	**$ 13,707,220**	**$ 15,240,891**	**$28,948,111**

Approximately 13% of the University's endowment is invested in real estate on Stanford's lands, including the Stanford Research Park. This portion of the endowment includes the present value of ground leases, and rental properties that have been developed on Stanford lands. The net operating income from these properties is distributed each year for University operations.

Through the combination of investment strategy and payout policy, the University strives to provide a reasonably consistent payout from endowment to support operations, while preserving the purchasing power of the endowment adjusted for inflation.

The Board approves the amounts to be paid out annually from endowment funds invested in the MP. Consistent with the Uniform Prudent Management of Institutional Funds Act, when determining the appropriate payout the Board considers the purposes of the University and the endowment, the duration and preservation of the endowment, general economic conditions, the possible effect of inflation or deflation, the expected return from income and the appreciation of investments, other resources of the University, and the University's investment policy.

The current Board approved targeted spending rate is 5.5%. The payout amount is determined by applying a smoothing rule designed to mitigate the impact of short-term market volatility on the flow of funds to support operations. The Board has the authority to override the smoothing rule and set the payout rate directly. For FY21 in response to COVD-19 concerns the Board approved the creation of two payout rates, one for student aid funds and the other for non-student aid funds. The rate for student aid funds remained at the rate previously approved in February 2020. The Board, however, cut the rate by 10% for non-student aid funds. The sources of payout are earned income on endowment assets (interest, dividends, rents and royalties), realized capital gains and FFE, as needed and as available.

SHC

SHC's endowment is intended to generate investment income to support its current operating and strategic initiatives. SHC invests all of its endowment in the University's MP. The endowments are subject to the same investment and spending strategies that the University employs. "Amounts distributed for operations" in the table below represents SHC's current year endowment payout spent for designated purposes. All of SHC's endowment is donor restricted. Changes in SHC's endowment, excluding pledges, for the years ended August 31, 2021 and 2020, in thousands of dollars, are as follows:

	2021	2020
Endowment, beginning of year	$ 31,249	$ 24,353
Total investment returns, net	11,028	2,213
Amounts distributed for operations	(492)	(519)
Gifts and pledge payments	740	5,202
Other	153	—
Total net increase in endowment	11,429	6,896
ENDOWMENT, END OF YEAR	**$ 42,678**	**$ 31,249**

LPCH

LPCH's endowment is intended to generate investment income that can be used to support their current operating and strategic initiatives. The endowment includes funds held by LPCH and Lucile Packard Foundation for Children's Health (LPFCH). LPCH is the sole member of LPFCH, a public charity, whose mission is to elevate the priority of children's health and increase the quality and accessibility of children's health care through leadership and direct investment. LPCH invests the majority of its endowment in the University's MP, and LPFCH invests its endowment in other long-term investments.

LPCH's Board of Directors has adopted the University's investment and spending policies for its donor-restricted and board designated funds functioning as an endowment that provide for annual amounts (payout) to be distributed to appropriate restricted funds supporting operating and strategic activities of LPCH.

LPFCH's endowment is approved as board designated funds functioning as endowment by LPFCH's Board of Directors. LPFCH has a policy of appropriating for distribution each year an amount determined annually based on budget needs. The annual distribution is expected to average no more than 5% of the endowment fund's fair value. For individual years, it is expected to fall within a target range of 4.75% to 5.25% of the endowment fund's average fair value over the prior 12 quarters. Unspent program budget may be spent in future years subject to certain limits. LPFCH's Board of Directors may also appropriate an amount outside this target range. Accordingly, depending on anticipated activity and timing of the grant opportunities, actual spending may fall outside of the range. In establishing this policy, the LPFCH considered the long term expected return on its endowment. Over the long term, the LPFCH expects the current spending policy to allow its endowment to grow at a rate of expected inflation. This is consistent with the LPFCH's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through investment return.

Changes in LPCH's endowment, excluding pledges, for the years ended August 31, 2021 and 2020, in thousands of dollars, are as follows:

	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
2021			
Endowment, beginning of year	$ 128,521	$ 390,056	$ 518,577
Total investment returns, net	39,886	130,731	170,617
Amounts distributed for operations	(5,607)	(18,799)	(24,406)
Gifts and pledge payments	32	8,393	8,425
Other	—	(585)	(585)
Total net increase in endowment	34,311	119,740	154,051
ENDOWMENT, END OF YEAR	**$ 162,832**	**$ 509,796**	**$ 672,628**
2020			
Endowment, beginning of year	$ 125,846	$ 362,229	$ 488,075
Total investment returns, net	9,154	30,789	39,943
Amounts distributed for operations	(2,358)	(17,390)	(19,748)
Gifts and pledge payments	430	15,159	15,589
Other	(4,551)	(731)	(5,282)
Total net increase in endowment	2,675	27,827	30,502
ENDOWMENT, END OF YEAR	**$ 128,521**	**$ 390,056**	**$ 518,577**

12. Health Care Services Revenue

SHC and LPCH derive a majority of health care services revenue from contractual agreements with Medicare, Medi-Cal and other third-party payers that provide for payments at amounts different from established rates. Payments under these agreements and programs are based on a variety of payment models, including estimated retroactive audit adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Contracts, laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, it is reasonably possible that recorded estimates may change by a material amount in the near term.

A summary of payment arrangements with major third-party payers follows:

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

Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology subject to final settlement after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. 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 health care services revenue in the year examination is substantially completed. Medicare cost reports have been audited by the Medicare administrative contractor through August 31, 2010 for SHC and August 31, 2019 for LPCH.

Professional services are reimbursed based on a fee schedule.

Medi-Cal
The State reimburses hospitals for inpatient services rendered to Medi-Cal program beneficiaries based on a prospectively determined rate per discharge. Hospital outpatient and professional services are reimbursed based upon prospectively determined fee schedules.

The California Children's Services (“CCS”) Program is a partnership between state and counties that provides medical case management for children in California diagnosed with serious chronic diseases. Currently, approximately 70% of CCS-eligible children are also Medi-Cal eligible. The Medi-Cal program reimburses their care.

Managed Care Organizations
SHC and LPCH have entered into agreements with numerous third-party payers to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

- Commercial insurance companies which reimburse at negotiated charges.
- Managed care contracts such as those with Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs), which reimburse at contracted or per diem rates, which are usually less than full charges.
- Counties in the State of California, which reimburse for certain indigent patients covered under county contracts.

Uninsured

For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of standard rates for services less an uninsured discount applied to the patient's account that approximates the average discount for managed care payers.

Premium Revenue

SHC has capitated agreements with various HMOs to provide medical services to enrollees. Under these agreements, monthly payments are received based on the number of health plan enrollees. Additionally, SHC receives premium revenue from the Centers for Medicare & Medicaid Services ("CMS") to provide Medicare services to members. Premium revenue is recognized in the month in which the member is eligible for Medicare services as "health care services" in the *Consolidated Statements of Activities.* 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 expenses") includes an estimate of the costs of services for which SHC is responsible, including referrals to outside healthcare providers.

The following table presents health care services revenue, net of price concessions, for the years ended August 31, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2021					
Patient care revenue, net:					
Medicare	$ —	$ 1,019,262	$ 10,504	$ —	$ 1,029,766
Medi-Cal	—	131,372	391,598	—	522,970
Managed care	—	4,720,044	1,537,861	—	6,257,905
Self pay and other	—	140,074	198,753	—	338,827
Physician services and support (see *Note 1*)	1,334,418	41,296	—	(1,375,714)	—
Total patient care revenue, net	1,334,418	6,052,048	2,138,716	(1,375,714)	8,149,468
Premium revenue	—	118,741	—	—	118,741
Other services and support	44,601	—	—	(11,254)	33,347
HEALTH CARE SERVICES REVENUE, NET	**$1,379,019**	**$6,170,789**	**$2,138,716**	**$ (1,386,968)**	**$ 8,301,556**
2020					
Patient care revenue, net:					
Medicare	$ —	$ 921,709	$ 5,399	$ —	$ 927,108
Medi-Cal	—	108,751	375,499	—	484,250
Managed care	—	3,957,801	1,362,432	—	5,320,233
Self pay and other	—	114,470	140,532	—	255,002
Physician services and support (see *Note 1*)	1,235,774	38,207	—	(1,273,981)	—
Total patient care revenue, net	1,235,774	5,140,938	1,883,862	(1,273,981)	6,986,593
Premium revenue	—	116,971	—	—	116,971
Other services and support	42,872	—	—	(9,848)	33,024
HEALTH CARE SERVICES REVENUE, NET	**$1,278,646**	**$5,257,909**	**$1,883,862**	**$ (1,283,829)**	**$ 7,136,588**

For the years ended August 31, 2021 and 2020, SHC recognized net health care services revenue adjustments of $9.7 million and $10.8 million, respectively, as a result of prior years' unfavorable developments related to reimbursement and appeals. LPCH had no significant adjustments to revenue for the years ended August 31, 2021 and 2020.

Charity Care and Community Benefits

SHC and LPCH provide charity care, free of charge, to vulnerable populations. SHC's estimated cost of providing charity care was $19.2 million and $23.4 million, and LPCH's estimated cost of providing charity care was $809 thousand and $1.2 million for the years ended August 31, 2021 and 2020, respectively. This cost is estimated by calculating a ratio of total costs to gross patient service charges at established rates, and then multiplying that ratio by gross uncompensated patient service charges at established rates associated with providing care to charity patients. SHC received $444 thousand and $825 thousand during the years ended August 31, 2021 and 2020, respectively, from contributions that were restricted for the care of indigent patients.

SHC and LPCH also provide services to other patients under the Medicare, Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. Estimated costs in excess of reimbursements for the Medicare, Medi-Cal and other publicly sponsored programs for the years ended August 31, 2021 and 2020 were $1.5 billion and $1.4 billion for SHC, and $216.6 million and $259.5 million for LPCH, respectively.

Provider Fee

The State of California enacted legislation in 2009 as subsequently amended which established a Hospital Quality Assurance Fee (QAF) Program and a Hospital Fee Program. These programs impose a provider fee on certain California general acute care hospitals that, combined with federal matching funds, is used to provide supplemental payments to certain hospitals and support the State's effort to maintain health care coverage for children. California's participation in these programs was made permanent by a ballot initiative passed in November 2016. Specific portions of the program covering the period from July 1, 2017 to June 30, 2019, and July 1, 2019 to December 31, 2021, have not yet been approved by the Centers for Medicare and Medicaid Services (CMS). Accordingly, any potential activity under unapproved programs related to July 1, 2017 through August 31, 2021 have not been recorded in the *Consolidated Statements of Activities*.

Provider fee revenue is recorded in "health care services" while provider fee expense is recorded in "other operating expenses" in the *Consolidated Statements of Activities*. Provider fee revenue, net of expense, under the approved portions of the programs for the years ended August 31, in thousands of dollars, is as follows:

	SHC	LPCH	CONSOLIDATED
2021			
Revenue	$ 46,008	$ 65,992	$ 112,000
Expense	(41,674)	(20,553)	(62,227)
TOTAL	**$ 4,334**	**$ 45,439**	**$ 49,773**
2020			
Revenue	$ 66,459	$ 80,604	$ 147,063
Expense	(54,914)	(23,845)	(78,759)
TOTAL	**$ 11,545**	**$ 56,759**	**$ 68,304**

Deferred revenue and prepaid expense associated with unapproved programs will be recognized as revenue and expense upon CMS approval. Deferred revenue and prepaid expense as of August 31, 2021 and 2020, in thousands of dollars, is as follows:

	SHC	LPCH	CONSOLIDATED
2021			
Deferred revenue	$ 103,480	$ 108,884	$ 212,364
Prepaid expense	$ 54,639	$ 26,850	$ 81,489
2020			
Deferred revenue	$ 53,510	$ 57,236	$ 110,746
Prepaid expense	$ 30,402	$ 14,075	$ 44,477

13. Gifts and Pledges

Gifts and pledges reported for financial statement purposes are recorded on the accrual basis. The Office of Development (OOD), which is the primary fundraising agent for the University and SHC, reports total gifts based on contributions received in cash or property during the fiscal year. Lucile Packard Foundation for Children's Health (LPFCH) is the primary community fundraising agent for LPCH and the pediatric faculty and programs at the University's SOM. The following summarizes gifts and pledges reported for the years ended August 31, 2021 and 2020, per the *Consolidated Statements of Activities*, in thousands of dollars:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Current year gifts in support of operations	$ 288,110	$ 204	$ 5,401	$ 293,715
Donor advised funds, net	3,395	—	—	3,395
Current year gifts not included in operations	408	—	—	408
Gifts and pledges, net - with donor restrictions	998,134	34,860	71,083	1,104,077
TOTAL	**$1,290,047**	**$ 35,064**	**$ 76,484**	**$ 1,401,595**
2020				
Current year gifts in support of operations	$ 289,908	$ 1,703	$ 4,115	$ 295,726
Donor advised funds, net	61,723	—	—	61,723
Current year gifts not included in operations	2,026	—	—	2,026
Gifts and pledges, net - with donor restrictions	684,985	22,084	32,172	739,241
TOTAL	**$1,038,642**	**$ 23,787**	**$ 36,287**	**$ 1,098,716**

14. Functional Expenses

Expenses are presented by functional classification in alignment with Stanford's mission of teaching, research and health care.

Major functional categories consist of the following:

- **Instruction and departmental research** includes teaching and internally funded research expenses.
- **Organized research - direct costs** include sponsored support costs.
- **Health care services** include patient care provided by SHC, LPCH, SOM faculty, and other health care related activities.
- **Auxiliary activities** include housing and dining services, intercollegiate athletics, Stanford Alumni Association, and other activities.
- **SLAC construction** includes the costs associated with major projects and facilities at the SLAC National Accelerator Laboratory.

Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort. Depreciation and facility operations and maintenance expenses are allocated to the functional categories directly or based on the square footage occupancy. Salaries and benefits expenses are allocated to functional categories directly based on time and effort incurred.

Expenses by functional and natural classification for the years ended August 31, 2021 and 2020 , in thousands of dollars, are as follows:

	SALARIES AND BENEFITS	DEPRECIATION	OTHER OPERATING EXPENSES	TOTAL OPERATING EXPENSES
2021				
UNIVERSITY				
Instruction and departmental research	$ 1,466,994	$ 127,426	$ 471,731	$ 2,066,151
Organized research - direct costs	787,963	75,607	485,473	1,349,043
Health care services	896,547	4,507	14,766	915,820
Auxiliary activities	147,226	125,069	276,614	548,909
Administration and general	348,890	56,052	171,942	576,884
Student services	181,233	6,501	149,351	337,085
Libraries	70,551	70,676	54,463	195,690
Development	84,716	4,346	12,262	101,324
SLAC construction	56,909	—	52,488	109,397
TOTAL EXPENSES	**4,041,029**	**470,184**	**1,689,090**	**6,200,303**
SHC				
Health care services	2,571,957	267,791	2,790,439	5,630,187
Administration and general	240,173	19,359	205,258	464,790
Development	1,092	—	12,795	13,887
TOTAL EXPENSES	**2,813,222**	**287,150**	**3,008,492**	**6,108,864**
LPCH				
Health care services	906,298	101,400	957,797	1,965,495
Administration and general	102,374	7,059	80,861	190,294
Development	14,538	882	9,369	24,789
TOTAL EXPENSES	**1,023,210**	**109,341**	**1,048,027**	**2,180,578**
ELIMINATIONS				
Instruction and departmental research	—	—	(9,209)	(9,209)
Health care services	—	—	(1,332,825)	(1,332,825)
Administration and general	—	—	(41,537)	(41,537)
Development	—	—	(12,606)	(12,606)
TOTAL ELIMINATIONS	**—**	**—**	**(1,396,177)**	**(1,396,177)**
CONSOLIDATED				
Instruction and departmental research	1,466,994	127,426	462,522	2,056,942
Organized research - direct costs	787,963	75,607	485,473	1,349,043
Health care services	4,374,802	373,698	2,430,177	7,178,677
Auxiliary activities	147,226	125,069	276,614	548,909
Administration and general	691,437	82,470	416,524	1,190,431
Student services	181,233	6,501	149,351	337,085
Libraries	70,551	70,676	54,463	195,690
Development	100,346	5,228	21,820	127,394
SLAC construction	56,909	—	52,488	109,397
TOTAL EXPENSES	**$ 7,877,461**	**$ 866,675**	**$ 4,349,432**	**$13,093,568**

	SALARIES AND BENEFITS	DEPRECIATION	OTHER OPERATING EXPENSES	TOTAL EXPENSES
2020				
UNIVERSITY				
Instruction and departmental research	$ 1,468,928	$ 127,916	$ 506,658	$ 2,103,502
Organized research - direct costs	767,919	75,912	457,741	1,301,572
Health care services	842,633	3,342	18,066	864,041
Auxiliary activities	153,498	92,752	252,046	498,296
Administration and general	322,616	56,279	173,809	552,704
Student services	190,326	6,527	132,373	329,226
Libraries	70,592	70,102	53,688	194,382
Development	87,637	4,364	14,569	106,570
SLAC construction	57,991	—	57,641	115,632
TOTAL EXPENSES	**3,962,140**	**437,194**	**1,666,591**	**6,065,925**
SHC				
Health care services	2,312,459	236,553	2,525,025	5,074,037
Administration and general	234,959	18,526	204,940	458,425
Development	841	—	13,229	14,070
TOTAL EXPENSES	**2,548,259**	**255,079**	**2,743,194**	**5,546,532**
LPCH				
Health care services	826,294	111,493	881,231	1,819,018
Administration and general	95,246	8,953	74,618	178,817
Development	13,790	684	7,150	21,624
TOTAL EXPENSES	**935,330**	**121,130**	**962,999**	**2,019,459**
ELIMINATIONS				
Health care services	—	—	(1,220,589)	(1,220,589)
Administration and general	—	—	(50,797)	(50,797)
Development	—	—	(12,443)	(12,443)
TOTAL ELIMINATIONS	**—**	**—**	**(1,283,829)**	**(1,283,829)**
CONSOLIDATED				
Instruction and departmental research	1,468,928	127,916	506,658	2,103,502
Organized research - direct costs	767,919	75,912	457,741	1,301,572
Health care services	3,981,386	351,388	2,203,733	6,536,507
Auxiliary activities	153,498	92,752	252,046	498,296
Administration and general	652,821	83,758	402,570	1,139,149
Student services	190,326	6,527	132,373	329,226
Libraries	70,592	70,102	53,688	194,382
Development	102,268	5,048	22,505	129,821
SLAC construction	57,991	—	57,641	115,632
TOTAL EXPENSES	**$ 7,445,729**	**$ 813,403**	**$ 4,088,955**	**$12,348,087**

15. University Retirement Plans

The University provides retirement benefits through both defined contribution and defined benefit retirement plans for substantially all of its employees.

DEFINED CONTRIBUTION PLAN

The University offers a defined contribution plan to eligible faculty and staff through the *Stanford Contributory Retirement Plan* (SCRP). Employer contributions are based on a percentage of participant annual compensation, participant contributions and years of service. University and participant contributions are primarily invested in annuities and mutual funds. University contributions under the SCRP, which are vested immediately to participants, were approximately $197.6 million and $191.1 million for the years ended August 31, 2021 and 2020, respectively.

DEFINED BENEFIT PLANS

The University provides retirement and postretirement medical and other benefits through the *Staff Retirement Annuity Plan*, the *Faculty Retirement Incentive Program*, and the *Postretirement Benefit Plan* (the "Plans"). The obligations for the Plans, net of plan assets, are recorded in the *Consolidated Statements of Financial Position* as "accrued pension and postretirement benefit obligations." These plans are described in more detail below.

Staff Retirement Annuity Plan

Retirement benefits for certain employees are provided through the *Staff Retirement Annuity Plan* (SRAP), a noncontributory plan. While the SRAP is closed to new participants, certain employees continue to accrue benefits. Contributions to the plan are made in accordance with the Employee Retirement Income Security Act (ERISA) based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

Faculty Retirement Incentive Program

The University provides a retirement incentive bonus for eligible faculty through the University *Faculty Retirement Incentive Program* (FRIP). The University's faculty may become eligible for the FRIP program if they commit to retire within a designated window of time. At August 31, 2021 and 2020, there were no program assets. The University funds benefit payouts as they are incurred.

Postretirement Benefit Plan

The University provides health care benefits for retired employees through its *Postretirement Benefit Plan* (PRBP). The University's employees and their covered dependents may become eligible for the PRBP upon the employee's retirement and meeting specific years of service and age criteria. Retiree health plans are paid for, in part, by retiree contributions, which are adjusted annually. The University's subsidy varies depending on whether the retiree is covered under the grandfathered design or the defined dollar benefit design. Medicare supplement options are provided for retirees over age 65.

The change in the Plans' assets, the related change in benefit obligations and the amounts recognized in the financial statements, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
2021				
Fair value of plan assets, beginning of year	$ 282,867	$ —	$ 291,126	$ 573,993
Change in plan assets:				
Actual return on plan assets	30,779	—	60,019	90,798
Employer contributions	—	9,148	10,723	19,871
Plan participants' contributions	—	—	15,348	15,348
Benefits and plan expenses paid	(12,788)	(9,148)	(40,158) *	(62,094)
Plan settlements	(9,773)	—	—	(9,773)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**291,085**	**—**	**337,058**	**628,143**
Benefit obligation, beginning of year	318,081	191,691	662,172	1,171,944
Change in projected benefit obligation:				
Service cost	1,361	12,180	23,313	36,854
Interest cost	6,615	4,182	16,877	27,674
Plan participants' contributions	—	—	15,348	15,348
Plan settlements	(9,773)	—	—	(9,773)
Actuarial gain	(1,925)	(11,132)	(25,293)	(38,350)
Benefits and plan expenses paid	(12,788)	(9,148)	(40,158) *	(62,094)
BENEFIT OBLIGATION, END OF YEAR	**301,571**	**187,773**	**652,259**	**1,141,603**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (10,486)**	**$(187,773)**	**$(315,201)**	**$ (513,460)**

** Net of Medicare subsidy of $1.1 million*

	SRAP	FRIP	PRBP	TOTAL
2020				
Fair value of plan assets, beginning of year	$ 267,977	$ —	$ 258,016	$ 525,993
Change in plan assets:				
Actual return on plan assets	33,460	—	42,155	75,615
Employer contributions	1,483	9,057	11,611	22,151
Plan participants' contributions	—	—	14,480	14,480
Benefits and plan expenses paid	(20,053)	(9,057)	(35,136) *	(64,246)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**282,867**	**—**	**291,126**	**573,993**
Benefit obligation, beginning of year	319,422	204,185	682,139	1,205,746
Change in projected benefit obligation:				
Service cost	1,505	12,132	22,999	36,636
Interest cost	8,450	5,562	20,550	34,562
Plan participants' contributions	—	—	14,480	14,480
Plan amendments	1,256	—	—	1,256
Actuarial loss (gain)	7,501	(21,131)	(42,860)	(56,490)
Benefits and plan expenses paid	(20,053)	(9,057)	(35,136) *	(64,246)
BENEFIT OBLIGATION, END OF YEAR	**318,081**	**191,691**	**662,172**	**1,171,944**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (35,214)**	**$(191,691)**	**$(371,046)**	**$ (597,951)**

** Net of Medicare subsidy of $2.0 million*

The accumulated benefit obligation for the SRAP was $300.8 million and $317.2 million at August 31, 2021 and 2020, respectively.

Net periodic benefit expense and non-operating activities related to the Plans for the years ended August 31, 2021 and 2020, in thousands of dollars, includes the following components:

	SRAP	FRIP	PRBP	TOTAL
2021				
Service cost	$ 1,361	$ 12,180	$ 23,313	$ 36,854
PERIODIC BENEFIT EXPENSE	**1,361**	**12,180**	**23,313**	**36,854**
Non-operating:				
Interest cost	6,615	4,182	16,877	27,674
Expected return on plan assets	(12,055)	—	(17,468)	(29,523)
Amortization of:				
Prior service cost	850	—	373	1,223
Actuarial loss	654	—	—	654
Settlement loss	794	—	—	794
Non-operating periodic benefit cost	(3,142)	4,182	(218)	822
NET PERIODIC BENEFIT COST[1]	**(1,781)**	**16,362**	**23,095**	**37,676**
Non-operating periodic benefit cost	(3,142)	4,182	(218)	822
Net actuarial loss (gain)	(20,649)	(11,132)	(67,844)	(99,625)
Amortization of:				
Prior service cost	(850)	—	(373)	(1,223)
Actuarial loss	(654)	—	—	(654)
Settlement loss	(794)	—	—	(794)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**$ (26,089)**	**$ (6,950)**	**$ (68,435)**	**$ (101,474)**
2020				
Service cost	$ 1,505	$ 12,132	$ 22,999	$ 36,636
PERIODIC BENEFIT EXPENSE	**1,505**	**12,132**	**22,999**	**36,636**
Non-operating:				
Interest cost	8,450	5,562	20,550	34,562
Expected return on plan assets	(12,678)	—	(16,771)	(29,449)
Amortization of:				
Prior service cost	606	—	373	979
Actuarial loss	1,239	1,022	4,425	6,686
Non-operating periodic benefit cost	(2,383)	6,584	8,577	12,778
NET PERIODIC BENEFIT COST[1]	**(878)**	**18,716**	**31,576**	**49,414**
Non-operating periodic benefit cost	(2,383)	6,584	8,577	12,778
New prior service cost	1,256	—	—	1,256
Net actuarial gain	(13,281)	(21,131)	(68,244)	(102,656)
Amortization of:				
Prior service cost	(606)	—	(373)	(979)
Actuarial loss	(1,239)	(1,022)	(4,425)	(6,686)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**(16,253)**	**(15,569)**	**(64,465)**	**(96,287)**

[1]*The components of net periodic benefit cost other than service cost are included in "pension and other postemployment benefit related changes other than service cost" in the Statement of Activities.*

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit cost in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2021 and 2020, in thousands of dollars:

	SRAP	FRIP	PRBP	TOTAL
2021				
Prior service cost	$ 3,830	$ —	$ 2,500	$ 6,330
Net actuarial loss (gain)	24,510	4,742	(13,533)	15,719
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 28,340**	**$ 4,742**	**$ (11,033)**	**$ 22,049**
2020				
Prior service cost	$ 4,680	$ —	$ 2,873	$ 7,553
Net actuarial loss	46,607	15,874	54,311	116,792
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 51,287**	**$ 15,874**	**$ 57,184**	**$ 124,345**

The prior service costs and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit cost in fiscal year 2022, in thousands of dollars, are as follows:

	SRAP	FRIP	PRBP	TOTAL
Prior service cost	$ 850	$ —	$ 373	$ 1,223

ACTUARIAL ASSUMPTIONS

The weighted average assumptions used to determine the benefit obligations and net periodic benefit cost for the Plans are shown below:

	SRAP		FRIP		PRBP	
	2021	2020	2021	2020	2021	2020
BENEFIT OBLIGATIONS						
Discount rate	2.34%	2.18%	2.43%	2.26%	2.67%	2.59%
Covered payroll growth rate	3.00%	3.00%	4.80%	4.79%	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	2.18%	2.78%	2.26%	2.82%	2.59%	3.06%
Expected returns on plan assets	4.50%	5.00%	N/A	N/A	6.00%	6.50%
Covered payroll growth rate	3.00%	3.00%	4.79%	4.25%	N/A	N/A

The expected long-term rate of return on asset assumptions for the SRAP and PRBP plans is 5.00% and 6.00%, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRBP obligation at August 31, 2021, a 7.00%, 5.00% and 4.90% annual rate of increase in the cost of covered health care for Medical Pre-65, Medical Post-65, and Part D, respectively, was assumed for calendar year 2021 with all three rates declining gradually to 4.00% by 2045 and remaining at this rate thereafter.

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plans. If the assumed health care cost trend were increased or decreased by 1%, the impact on the PRBP service and interest cost and the accumulated obligation are as follows, in thousands of dollars:

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRBP total service and interest cost	$ 10,594	$ (7,881)
Effect on accumulated PRBP obligation	$ 125,166	$ (97,909)

EXPECTED CONTRIBUTIONS

The University expects to contribute $13.1 million to the FRIP, $20.2 million to the PRBP, and does not expect to contribute to the SRAP during the fiscal year ending August 31, 2022.

EXPECTED BENEFIT PAYMENTS

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

			PRBP	
YEAR ENDING AUGUST 31	SRAP	FRIP	EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY
2022	$ 31,889	$ 13,137	$ 22,524	$ 2,352
2023	22,210	14,563	23,650	2,476
2024	20,315	11,640	24,820	2,591
2025	19,484	9,835	26,090	2,686
2026	19,452	10,225	27,399	2,791
2027 - 2031	83,702	57,035	156,317	15,928

INVESTMENT STRATEGY

The University's Retirement Program Investment Committee, acting in a fiduciary capacity, has established formal investment policies for the assets associated with the University's funded plans (SRAP and PRBP). The investment strategy of the plans is to preserve and enhance the value of the plans' assets within acceptable levels of risk. Investments in the plans are diversified among asset classes, striving to achieve an optimal balance between risk and return, and income and capital appreciation. Because the liabilities of each of the plans are long-term, the investment horizon is primarily long-term, with adequate liquidity to meet short-term benefit payment obligations.

CONCENTRATION OF RISK

The University manages a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by predominately investing in broadly diversified index funds for public equities and fixed income. As of August 31, 2021, the University did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 6*. As of August 31, 2021 and 2020, all of the assets of the PRBP and substantially all of the assets of the SRAP were categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2021 and 2020 and actual allocations and weighted-average target allocations at August 31, 2021 are as follows:

	2021	2020	2021 ACTUAL ALLOCATION	2021 TARGET ALLOCATION
SRAP:				
Cash and cash equivalents	$ 1,403	$ 1,940	1%	0%
Public equities	128,763	118,761	44%	41%
Fixed income	160,900	162,144	55%	59%
Private equities	19	22	<1%	0%
TOTAL	**291,085**	**282,867**	**100%**	**100%**
PRBP:				
Public equities	254,394	220,145	75%	75%
Fixed income	82,664	70,981	25%	25%
TOTAL	**337,058**	**291,126**	**100%**	**100%**
TOTAL PLAN ASSETS AT FAIR VALUE	**$ 628,143**	**$ 573,993**		

16. SHC and LPCH Retirement Plans

SHC and LPCH provide retirement benefits through defined benefit and defined contribution retirement plans covering substantially all of its regular employees.

DEFINED CONTRIBUTION PLAN

The Hospitals offer a defined contribution plan to eligible employees. Employer contributions to the defined contribution retirement plan are based on a percentage of participant annual compensation, participant contributions and years of service. SHC and LPCH contributions under the plan, which are vested immediately to participants, were approximately $141.2 million and $124.2 million, and $55.8 million and $51.4 million for the years ended August 31, 2021 and 2020, respectively.

DEFINED BENEFIT PLANS

The Hospitals provide retirement and postretirement medical benefits through the SHC *Staff Pension Plan*, the SHC *Postretirement Medical Benefit Plan*, and the LPCH *Frozen Pension Plan*, collectively (the “Plans”). The obligations for the Plans, net of plan assets, are recorded in the *Consolidated Statements of Financial Position* as “accrued pension and postretirement benefit obligations.” These plans are described in more detail below.

Staff Pension Plan

Certain employees of SHC and LPCH are covered by the SHC *Staff Pension Plan* (the “Pension Plan”), a noncontributory, defined benefit pension plan. While the Pension Plan is closed to new participants, certain employees continue to accrue benefits. Benefits are based on years of service and the employee’s compensation. Contributions to the plan are made in accordance with ERISA based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. SHC and LPCH have an arrangement whereby SHC assumes the pension liability of the LPCH employees and previously leased employees. However, LPCH is required to reimburse SHC for the annual expense incurred for these employees and previously leased employees.

Postretirement Medical Benefit Plan

SHC and LPCH provide health care benefits for certain retired employees through the SHC *Postretirement Medical Benefit Plan* (PRMB). The Hospitals’ employees and their covered dependents may become eligible for the PRMB upon the employee’s retirement as early as age 55, with years of service as defined by specific criteria. Retiree health plans are paid, in part, by retiree contributions, which are adjusted annually. The Hospitals’ subsidies vary depending on whether the retiree is covered under the grandfathered design or the defined dollar benefit design. Medicare supplement options are provided for retirees over age 65. LPCH reimburses SHC for costs related to this plan on a periodic basis.

Frozen Pension Plan

Certain other LPCH employees and previously leased employees not covered by the previously described plans are covered by a frozen noncontributory defined benefit pension plan (the “LPCH *Frozen Pension Plan*”). Benefits are based on years of service and the employee’s compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. In November 2020, the LPCH Board of Directors approved a resolution to terminate the LPCH Frozen Pension Plan with a lump sum distribution to be made in November 2021 and an annuity purchase in January 2022.

The change in the Plans' assets, the related change in benefit obligations and the amounts recognized in the financial statements, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2021			
Fair value of plan assets, beginning of year	$ 210,752	$ —	$ 8,319
Change in plan assets:			
Actual return on plan assets	13,438	—	(219)
Employer contributions	—	5,632	—
Plan participants' contributions	—	1,251	—
Benefits and plan expenses paid	(10,824)	(6,883) *	(599)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**213,366**	**—**	**7,501**
Benefit obligation, beginning of year	219,407	113,212	8,380
Change in projected benefit obligation:			
Service cost	1,083	4,829	—
Interest cost	4,978	2,388	176
Plan participants' contributions	—	1,251	—
Actuarial loss (gain)	(1,508)	1,823	(455)
Benefits and plan expenses paid	(10,824)	(6,883) *	(599)
BENEFIT OBLIGATION, END OF YEAR	**213,136**	**116,620**	**7,502**
NET ASSET (LIABILITY) RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ 230**	**$ (116,620)**	**$ (1)**
** Net of Medicare subsidy of $106 thousand*			
2020			
Fair value of plan assets, beginning of year	$ 193,642	$ —	$ 6,872
Change in plan assets:			
Actual return on plan assets	26,157	—	1,009
Employer contributions	1,917	4,430	1,109
Plan participants' contributions	—	1,284	—
Benefits and plan expenses paid	(10,964)	(5,714) *	(671)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**210,752**	**—**	**8,319**
Benefit obligation, beginning of year	210,690	101,093	8,291
Change in projected benefit obligation:			
Service cost	1,546	3,829	—
Interest cost	5,907	2,704	222
Plan participants' contributions	—	1,284	—
Actuarial loss	12,228	4,868	538
Benefits and plan expenses paid	(10,964)	(5,714) *	(671)
Plan amendments	—	5,148	—
BENEFIT OBLIGATION, END OF YEAR	**219,407**	**113,212**	**8,380**
NET LIABILITY RECOGNIZED IN THE *STATEMENTS OF FINANCIAL POSITION*	**$ (8,655)**	**$ (113,212)**	**$ (61)**

** Net of Medicare subsidy of $125 thousand*

The net liability for the PRMB includes amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Financial Position*. The table below presents the plan obligations for each entity as of August 31, 2021 and 2020, in thousands of dollars:

	2021	2020
SHC	$ 86,856	$ 84,772
LPCH	29,764	28,440
TOTAL	**$ 116,620**	**$ 113,212**

The accumulated benefit obligation for the Pension Plan and LPCH Frozen Pension Plan was $211.3 million and $217.6 million, and $7.5 million and $8.4 million at August 31, 2021 and 2020, respectively.

Net periodic benefit cost and non-operating activities related to the Plans for the years ended August 31, 2021 and 2020, in thousands of dollars, includes the following components:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2021			
Service cost	$ 1,083	$ 4,829	$ —
PERIODIC BENEFIT EXPENSE	**1,083**	**4,829**	**—**
Non-operating:			
Interest cost	4,978	2,388	176
Expected return on plan assets	(9,270)	—	(239)
Amortization of:			
Prior service cost	—	2,976	—
Actuarial loss (gain)	2,408	68	112
Non-operating net periodic benefit cost	**(1,884)**	**5,432**	**49**
NET PERIODIC BENEFIT COST[1]	**(801)**	**10,261**	**49**
Non-operating net periodic benefit cost	(1,884)	5,432	49
Net actuarial loss (gain)	(5,676)	1,823	3
Amortization of:			
Prior service cost	—	(2,976)	—
Actuarial gain (loss)	(2,408)	(68)	(112)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**$ (9,968)**	**$ 4,211**	**$ (60)**
2020			
Service cost	$ 1,546	$ 3,829	$ —
PERIODIC BENEFIT EXPENSE	**1,546**	**3,829**	**—**
Non-operating:			
Interest cost	5,907	2,704	222
Expected return on plan assets	(9,692)	—	(341)
Amortization of:			
Prior service cost	—	2,560	—
Actuarial loss (gain)	2,277	(251)	119
Non-operating net periodic benefit cost	**(1,508)**	**5,013**	**—**
NET PERIODIC BENEFIT COST[1]	**38**	**8,842**	**—**
Non-operating net periodic benefit cost	(1,508)	5,013	—
Net actuarial loss (gain)	(4,237)	4,868	(130)
New prior service cost	—	5,148	—
Amortization of:			
Prior service cost	—	(2,560)	—
Actuarial gain (loss)	(2,277)	251	(119)
TOTAL AMOUNTS RECOGNIZED IN NON-OPERATING ACTIVITIES	**$ (8,022)**	**$ 12,720**	**$ (249)**

[1]The components of net periodic benefit cost other than service cost are included in "pension and other postemployment benefit related changes other than service cost" in the Statement of Activities.

The net periodic benefit cost and amounts recognized in non-operating activities for the PRMB include amounts for both SHC and LPCH employees and is recognized on the Hospitals' respective *Statements of Activities*. The table below presents the amount for each entity as of August 31, 2021 and 2020, in thousands of dollars:

	SHC	LPCH	TOTAL
2021			
Net periodic benefit cost	$ 7,359	$ 2,902	$ 10,261
Amounts recognized in non-operating activities	(1,312)	91	(1,221)
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT COST AND NON-OPERATING ACTIVITIES	**$ 6,047**	**$ 2,993**	**$ 9,040**
2020			
Net periodic benefit cost	$ 6,325	$ 2,517	$ 8,842
Amounts recognized in non-operating activities	5,472	2,235	7,707
TOTAL AMOUNT RECOGNIZED IN NET PERIODIC BENEFIT COST AND NON-OPERATING ACTIVITIES	**$ 11,797**	**$ 4,752**	**$ 16,549**

Cumulative amounts recognized in non-operating activities, but not yet recognized in net periodic benefit cost in the *Consolidated Statements of Activities*, are presented in the following table for the years ended August 31, 2021 and 2020, in thousands of dollars:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
2021			
Prior service cost	$ —	$ 17,316	$ —
Net actuarial loss	50,625	2,861	2,095
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 50,625**	**$ 20,177**	**$ 2,095**
2020			
Prior service cost	$ —	$ 20,292	$ —
Net actuarial loss	58,709	1,106	2,204
ACCUMULATED PLAN BENEFIT COSTS NOT YET RECOGNIZED IN NET PERIODIC BENEFIT COST	**$ 58,709**	**$ 21,398**	**$ 2,204**

The prior service cost and net actuarial loss expected to be amortized from non-operating activities to net periodic benefit expense in fiscal year 2022, in thousands of dollars, are as follows:

	STAFF PENSION PLAN	PRMB	LPCH FROZEN PENSION PLAN
Prior service cost	$ —	$ 2,415	$ —
Net actuarial loss	$ 2,027	$ 167	$ 118

ACTUARIAL ASSUMPTIONS

The weighted average assumptions used to determine the benefit obligations and net periodic benefit cost for the Plans are shown below:

	STAFF PENSION PLAN		PRMB		LPCH FROZEN PENSION PLAN	
	2021	2020	2021	2020	2021	2020
BENEFIT OBLIGATIONS						
Discount rate	2.46%	2.33%	2.39%	2.18%	2.34 %	2.19%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A
NET PERIODIC BENEFIT COST						
Discount rate	2.33%	2.88%	2.18%	2.77%	2.19 %	2.80%
Expected return on plan assets	5.00%	5.50%	N/A	N/A	3.00 %	4.50%
Covered payroll growth rate	3.00%	3.00%	N/A	N/A	N/A	N/A

The expected long-term rate of return on asset assumptions for the Pension Plan and LPCH Frozen Pension Plan are 5.00% and 3.00 %, respectively. The assumption is used in determining the expected returns on plan assets, a component of net periodic benefit expense (income), representing the expected return for the upcoming fiscal year on plan assets based on the calculated market-related value of plan assets. This assumption is developed based on future expectations for returns in each asset class, as well as the target asset allocation of the portfolios. The use of expected long-term returns on plan assets may result in income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns, and therefore result in a pattern of income and cost recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized as a component of non-operating activities and amortized as a component of net periodic benefit expense (income) over the service or life expectancy of the plan participants, depending on the plan, provided such amounts exceed the accounting standards threshold.

To determine the accumulated PRMB obligation at August 31, 2021, a 5.80% for Medical Pre-65 and 7.35% for Medical Post-65 annual rate of increase in the per capita cost of covered health care were assumed for calendar year 2021, declining gradually to 4.00% by 2038 and remaining at this rate thereafter.

Health care cost trend rate assumptions have a significant effect on the amounts reported for the health care plan. If the assumed health care cost trend were increased or decreased by 1%, the impact on PRMB service and interest cost and accumulated obligation are as follows, in thousands of dollars:

	1% INCREASE IN HEALTH CARE COST TREND RATE	1% DECREASE IN HEALTH CARE COST TREND RATE
Effect on PRMB total service and interest cost	$ 103	$ (109)
Effect on accumulated PRMB obligation	$ 1,708	$ (1,707)

EXPECTED CONTRIBUTIONS

SHC expects to contribute $5.5 million to the PRMB and does not expect to contribute to the Pension Plan during the fiscal year ending August 31, 2022. LPCH does not expect to contribute to the LPCH Frozen Pension Plan during the fiscal year ending August 31, 2022.

EXPECTED BENEFIT PAYMENTS

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

		PRMB		
YEAR ENDING AUGUST 31	STAFF PENSION PLAN	EXCLUDING MEDICARE SUBSIDY	EXPECTED MEDICARE PART D SUBSIDY	LPCH FROZEN PENSION PLAN
2022	$ 11,899	$ 7,486	$ 255	$ 7,567
2023	12,101	7,700	119	—
2024	12,268	7,897	114	—
2025	12,405	8,046	108	—
2026	12,487	8,152	101	—
2027 - 2031	61,043	41,245	399	—

INVESTMENT STRATEGY

SHC's and LPCH's investment strategies for the Pension Plan and LPCH Frozen Pension Plan is to maximize the total rate of return (income and appreciation) within the limits of prudent risk taking and Section 404 of ERISA. The funds are diversified across asset classes to achieve an optimal balance between risk and return and between income and capital appreciation. Because the liabilities of each of the plans are long-term, the investment horizon is primarily long-term, with adequate liquidity to meet short-term benefit payment obligations.

CONCENTRATION OF RISK

SHC and LPCH manage a variety of risks, including market, credit, and liquidity risks, across its plan assets. Concentration of risk is defined as an undiversified exposure to one of the above-mentioned risks that increases the exposure of the loss of plan assets unnecessarily. Risk is minimized by diversifying the Hospitals' exposure to such risks across a variety of instruments, markets, and counterparties. As of August 31, 2021, the Hospitals did not have concentrations of risk in any single entity, counterparty, sector, industry or country.

PLAN ASSETS AND ALLOCATIONS

Current U.S. GAAP defines a hierarchy of valuation inputs for the determination of the fair value of plan assets as described in *Note 6*. The Plans' assets measured at fair value at August 31, 2021 and 2020, are all categorized as Level 1 investments. The fair value of plan assets by asset category, in thousands of dollars, at August 31, 2021 and 2020 and actual allocations and weighted-average target allocations at August 31, 2021 are as follows:

	2021	2020	2021 ACTUAL ALLOCATION	2021 TARGET ALLOCATION
STAFF PENSION PLAN:				
Cash and cash equivalents	$ 426	$ 673	<1%	—%
Public equities	21,335	77,898	10%	10%
Fixed income	191,605	132,181	90%	90%
PLAN ASSETS AT FAIR VALUE	**$ 213,366**	**$ 210,752**	**100%**	**100%**
LPCH FROZEN PENSION PLAN:				
Cash and cash equivalents	$ 1,376	$ 33	18%	—%
Fixed income	6,125	8,286	82%	100%
PLAN ASSETS AT FAIR VALUE	**$ 7,501**	**$ 8,319**	**100%**	**100%**

17. Leases

LESSEE

Stanford leases research and development facilities, office spaces, buses, and equipment under operating and finance leases expiring through November 2057. Under the accounting standard for leases, a lease conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On the *Consolidated Statements of Financial Position*, "right-of-use assets" represent Stanford's right to use an underlying asset for the lease term and "lease liabilities" represent Stanford's obligation to make lease payments arising from the lease based on the present value of lease payments over the lease term. Lease liabilities do not include lease payments that were not fixed at commencement or lease modification. The lease terms may include options to extend or terminate the lease when it is reasonably certain that Stanford will exercise that option. The exercise of lease renewal options is at Stanford's sole discretion. Stanford uses an incremental borrowing rate for discounting leases, as applicable. Lease costs are included in other operating expense on the *Consolidated Statements of Activities*.

Supplemental information related to leases, in thousands of dollars, except lease term and discount rate, is as follows:

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2021					
Operating lease	$ 451,023	$ 292,506	$ 231,215	$ (146,081)	$ 828,663
Finance lease	170,768	82	—	—	170,850
TOTAL LEASE RIGHT-OF-USE ASSETS	**$ 621,791**	**$ 292,588**	**$ 231,215**	**$ (146,081)**	**$ 999,513**
Operating lease	$ 466,300	$ 312,210	$ 241,194	$ (146,081)	$ 873,623
Finance lease	173,906	89	—	—	173,995
TOTAL LEASE LIABILITY	**$ 640,206**	**$ 312,299**	**$ 241,194**	**$ (146,081)**	**$ 1,047,618**
Weighted-average remaining lease term:					
Operating lease	22.77 years	5.73 years	8.63 years		
Finance lease	22.66 years	1.17 years	N/A		
Weighted-average discount rate:					
Operating lease	2.24 %	2.02%	2.15 %		
Finance lease	2.45 %	1.79%	N/A		

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2020					
Operating lease	$ 497,437	$ 341,428	$ 234,215	$ (145,532)	$ 927,548
Finance lease	176,489	152	—	—	176,641
TOTAL LEASE RIGHT-OF-USE ASSETS	**$ 673,926**	**$ 341,580**	**$ 234,215**	**$ (145,532)**	**$ 1,104,189**
Operating lease	$ 503,109	$ 362,955	$ 239,676	$ (145,532)	$ 960,208
Finance lease	180,125	164	—	—	180,289
TOTAL LEASE LIABILITY	**$ 683,234**	**$ 363,119**	**$ 239,676**	**$ (145,532)**	**$ 1,140,497**
Weighted-average remaining lease term:					
Operating lease	21.90 years	5.77 years	9.71 years		
Finance lease	23.23 years	2.17 years	N/A		
Weighted-average discount rate:					
Operating lease	2.47 %	2.08%	2.21%		
Finance lease	2.52 %	1.79%	N/A		

The components of lease expenses, in thousands of dollars, are as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Operating lease cost	$ 73,747	$ 85,098	$ 36,578	$ 195,423
Finance lease cost:				
Amortization of leased assets	10,292	70	—	10,362
Interest on lease liabilities	3,326	2	—	3,328
Variable lease cost	3,392	16,023	6,194	25,609
Short-term lease cost	22,187	11,864	626	34,677
Sublease income	(7,775)	(5,323)	(6,931)	(20,029)
TOTAL LEASE COST	**$ 105,169**	**$ 107,734**	**$ 36,467**	**$ 249,370**
2020				
Operating lease cost	$ 42,396	$ 79,979	$ 32,850	$ 155,225
Finance lease cost:				
Amortization of leased assets	5,672	70	—	5,742
Interest on lease liabilities	1,567	4	—	1,571
Variable lease cost	2,915	17,937	5,779	26,631
Short-term lease cost	30,255	9,048	737	40,040
Sublease income	(16,440)	(5,732)	(3,895)	(26,067)
TOTAL LEASE COST	**$ 66,365**	**$ 101,306**	**$ 35,471**	**$ 203,142**

Supplemental cash flow information related to leases, in thousands of dollars, is as follows:

	UNIVERSITY	SHC	LPCH	CONSOLIDATED
2021				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 83,463	$ 86,352	$ 34,119	$ 203,934
Operating cash flows from finance leases	3,326	2	—	3,328
Financing cash flows from finance leases	12,038	75	—	12,113
Obtaining right-of-use assets in exchange for a lease liabilities:				
Operating leases	$ 1,257	$ 30,858	$ 30,976	$ 63,091
Finance leases	3,443	—	—	3,443
2020				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 38,891	$ 82,180	$ 31,218	$ 152,289
Operating cash flows from finance leases	1,516	4	—	1,520
Financing cash flows from finance leases	3,807	73	—	3,880
Obtaining right-of-use assets in exchange for a lease liabilities:				
Operating leases	$ 65,236	$ 96,491	$ 124,323	$ 286,050
Finance leases	160,966	—	—	160,966

Maturities of lease liabilities for periods subsequent to August 31, 2021, in thousands of dollars, are as follows:

	MATURITY OF LEASE LIABILITIES				
YEAR ENDING AUGUST 31	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
2022	$ 64,515	$ 84,670	$ 35,180	$ (18,097)	$ 166,268
2023	47,681	78,051	34,187	(18,493)	141,426
2024	45,139	53,571	30,931	(18,917)	110,724
2025	43,667	33,517	27,153	(18,329)	86,008
2026	42,664	24,607	25,560	(17,466)	75,365
Thereafter	671,271	56,847	112,772	(75,404)	765,486
TOTAL LEASE PAYMENTS	**914,937**	**331,263**	**265,783**	**(166,706)**	**1,345,277**
LESS IMPUTED INTEREST	**(274,731)**	**(18,964)**	**(24,589)**	**20,625**	**(297,659)**
TOTAL	**$ 640,206**	**$ 312,299**	**$ 241,194**	**$ (146,081)**	**$ 1,047,618**

LESSOR

Stanford holds investment properties that it leases to external parties under non-cancellable operating leases. Stanford receives minimum rental income over the life of the lease; however, certain of the leases include variable rental payments that are based on a percentage of the tenant sales in excess of contractual amount. Certain leases include options for lessee to extend or terminate the lease. The residual value from the underlying asset following the end of the lease term is based on independent appraisals and internal models that are based on discounted cash flows and market data, if available.

Total rental income under these leases for the year ended August 31, 2021 and 2020 was $183.5 million and $182.5 million for the University, $5.3 million and $5.7 million for SHC, and $1.6 million and $1.4 million for LPCH, respectively.

18. Related Party Transactions

Members of the University, SHC, and LPCH boards and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with Stanford.

The University, SHC and LPCH have separate written conflict of interest policies that require, among other items, that no member of their respective board can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each board member is required to certify compliance with his or her respective entity's conflict of interest policy on an annual basis and indicate whether his or her respective entity does business with any entity in which the board member has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the respective entity, and in accordance with applicable conflict of interest laws and policies. No such associations are considered to be significant.

The University, SHC, and LPCH each requires its senior management to disclose annually any significant financial interests in, or employment or consulting relationships with, entities doing business with it. These annual disclosures cover both senior management and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the relevant entity. No such associations are considered to be significant.

19. Commitments and Contingencies

Management is of the opinion that none of the following commitments and contingencies will have a material adverse effect on Stanford's consolidated financial position.

SPONSORED SUPPORT

As described in *Note 1*, costs recovered by the University as sponsored support are subject to audit and adjustment. Fringe benefit costs for the fiscal years ended August 31, 2016 to 2021 are subject to audit. The University does not anticipate any material adjustments to the *Consolidated Financial Statements*.

HEALTH CARE

As described in *Note 12*, cost reports filed under the Medicare program for services based upon cost reimbursement are subject to audit. The estimated amounts due to or from the program are reviewed and adjusted annually based upon the status of such audits and subsequent appeals.

The health care 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 health care providers could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SHC and LPCH are subject to similar regulatory reviews, and while such reviews may result in repayments and civil remedies that could have a material effect on their respective financial results of operations in a given period, SHC's and LPCH's management believes that such repayments and civil remedies would not have a material effect on the financial position of SHC and LPCH, respectively.

INFORMATION PRIVACY AND SECURITY

As with many medical centers and universities across the country, information privacy and security is a significant enterprise risk area, owing to persistent and pervasive cyber threats along with expanding regulatory compliance obligations and enforcement. The University, SHC and LPCH have programs in place to safeguard important systems and protected information, yet significant incidents have occurred in the past and may occur in the future involving potential or actual disclosure of such information (including, for example, personally identifiable information relating to employees, students, patients or research participants). In most cases, there has been no evidence of unauthorized access to, or use/disclosure of, such information, yet privacy laws may require reporting to potentially affected individuals as well as federal, state and international governmental agencies. Governmental agencies have the authority to investigate and request further information about an incident or safeguards, to cite the University, SHC or LPCH 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. To date, the cost of such possible consequences has not been material to the University, SHC or LPCH, and management does not believe that any future consequences of these identified incidents will be material to the *Consolidated Financial Statements*.

LABOR AGREEMENTS

Approximately 7% of the University's, 31% of SHC's and 44 % of LPCH's employees are covered under union contract arrangements and are, therefore, subject to labor stoppages when contracts expire. The University's agreement with the Service Employees International Union (SEIU) will expire in 2024. The University's agreement with the Stanford Deputy Sheriffs' Association expired July 2021 and negotiations are currently underway for a successor agreement. SHC's and LPCH's agreements with SEIU and the Committee for Recognition of Nursing Achievement (CRONA) will expire in 2023 and 2022, respectively.

GUARANTEES AND INDEMNIFICATIONS

Stanford enters into indemnification agreements with third parties in the normal course of business. The impact of these agreements, individually or in the aggregate, is not expected to be material to the *Consolidated Financial Statements*. As a result, no liabilities related to guarantees and indemnifications have been recorded at August 31, 2021.

LITIGATION

The University, SHC and LPCH are defendants in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, resulting from these legal actions will not have a material adverse effect on the consolidated financial position.

CONTRACTUAL COMMITMENTS

At August 31, 2021, the University had contractual obligations of approximately $228.9 million in connection with major construction projects. Remaining expenditures on construction in progress are estimated to be $583.0 million, which will be financed with certain unexpended plant funds, gifts and debt. Commitments on construction contracts, including the construction and remodeling of Hospital facilities, were approximately $253.2 million for SHC and $33.4 million for LPCH at August 31, 2021.

The University executed two 25-year agreements with two solar electricity developers and operators in 2015 and 2018 to purchase the output from their solar photovoltaic facilities and battery storage. The first facility was placed in service in December 2016 and the second facility is expected to be placed in service in June 2022. The minimum energy purchase requirements are expected to be well within the University's current consumption. The University's total payment under the agreements over the life of the agreements, undiscounted, is $327.1 million.

In addition, as described in *Note 6*, the University is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of years.

COVID-19

The COVID-19 pandemic has caused disruptions to our nation's higher education and healthcare systems, including Stanford. While the conditions have improved since the peak surge in early 2020, the national outlook worsened towards the end of the fiscal year 2021 with the spike in cases caused by the Delta variant of the COVID-19 virus. Adversely impacted areas include, but are not limited to, student enrollment and housing and dining revenues.

Patient volumes and the related revenues for most of SHC's and LPCH's health care services were significantly impacted in fiscal year 2020 as various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic, including restrictions on nonessential medical services, travel bans, social distancing, and shelter-in-place orders. These policies required the Hospitals to reduce hours and temporarily close certain operations, as well as significantly reduce surgical procedures, outpatient diagnostic and treatment services, and physician patient visits. More than a year into the COVID-19 pandemic, certain volumes were still impacted.

On March 27, 2020 the Federal Government passed the Coronavirus Aid, Relief, and Economic Stimulus Act (CARES Act) which made funds available to Stanford through various provisions of the legislation. For the years ended August 31, 2021 and 2020, SHC received CARES Act provider relief funding of $392.8 million and $122.8 million, respectively and LPCH received $6.7 million and $79.0 million, respectively, reported as "special program fees and other income" on the *Consolidated Statements of Activities.*

Stanford recognized revenue related to the CARES Act Provider Relief Fund based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available at August 31, 2021 and August 31, 2020. CARES Act provider relief funding is subject to future audit adjustments based on compliance audits and potential changes to statutes. In addition, HHS issued new reporting requirements for the CARES Act provider relief funding. The most recent requirements were issued in June 2021, and the new requirements expanded Provider Relief Fund eligibility and updated reporting requirements. Due to these new reporting requirements and the ongoing changes in the compliance requirements, there is at least a reasonable possibility that amounts recorded under CARES Act Provider Relief Fund may change in future periods.

Furthermore, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of August 31, 2021, the University, SHC, and LPCH deferred payments of $87.8 million, $56.0 million, and $24.8 million, respectively. As of August 31, 2020, the University, SHC, and LPCH deferred payments of $56.0 million, $46.3 million, and $16.1 million, respectively, and these amounts are reported as "accounts payable and accrued expenses" on the *Consolidated Statements of Financial Position*.

Under the CARES Act, SHC also received $397.0 million in advanced payments from the Centers for Medicare & Medicaid Services (CMS) in fiscal year 2020 which is on the *Consolidated Statements of Financial Position* as of August 31, 2020. CMS had indicated that it would begin recouping these advance payments against future Medicare claims for services that are provided during the recoupment period. By August 31, 2021, $397.0 million in advance payments were recouped by CMS.

Stanford is monitoring legislative developments, including future relief funding opportunities, and directives from federal, state, and local officials to determine additional precautions and procedures that may need to be implemented.

20. Subsequent Events

Stanford has evaluated subsequent events for the period from August 31, 2021 through December 1, 2021, the date the *Consolidated Financial Statements* were issued.

21. Consolidating Entity Statements

The pages which follow present consolidating statements of financial position as of August 31, 2021 and 2020, and consolidating statements of activities and cash flows for the years then ended, in thousands of dollars.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2021 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
Cash and cash equivalents	$ 874,943	$ 407,044	$ 398,194	$ (7,392)	$ 1,672,789
Assets limited as to use	453,452	—	—	—	453,452
Accounts receivable, net	241,706	894,521	617,783	—	1,754,010
Receivables (payables) from SHC and LPCH, net	42,841	—	—	(42,841)	—
Prepaid expenses and other assets	91,075	420,219	122,790	(123,594)	510,490
Pledges receivable, net	1,550,314	48,860	153,096	(51,745)	1,700,525
Student loans receivable, net	42,699	—	—	—	42,699
Faculty and staff mortgages and other loans receivable, net	892,098	—	—	—	892,098
Investments at fair value	48,001,081	4,662,740	1,368,332	7,392	54,039,545
Right-of-use assets	621,791	292,588	231,215	(146,081)	999,513
Plant facilities, net of accumulated depreciation	7,683,172	3,619,451	1,776,007	—	13,078,630
Works of art and special collections	—	—	—	—	—
TOTAL ASSETS	**$ 60,495,172**	**$ 10,345,423**	**$ 4,667,417**	**$ (364,261)**	**$ 75,143,751**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 969,304	$ 1,538,150	$ 380,416	$ (97,965)	$ 2,789,905
Liabilities associated with investments	974,756	—	—	—	974,756
Lease liabilities	640,206	312,299	241,194	(146,081)	1,047,618
Deferred income and other obligations	1,620,905	245,077	122,135	—	1,988,117
Accrued pension and postretirement benefit obligations	513,460	86,626	29,765	—	629,851
Notes and bonds payable	5,143,849	2,318,780	839,961	—	8,302,590
U.S. government refundable loan funds	16,456	—	—	—	16,456
TOTAL LIABILITIES	**9,878,936**	**4,500,932**	**1,613,471**	**(244,046)**	**15,749,293**
NET ASSETS:					
Without donor restrictions, including non-controlling interest attributable to SHC of $120,215	27,502,213	5,693,158	2,377,168	(120,215)	35,452,324
With donor restrictions	23,114,023	151,333	676,778	—	23,942,134
TOTAL NET ASSETS	**50,616,236**	**5,844,491**	**3,053,946**	**(120,215)**	**59,394,458**
TOTAL LIABILITIES AND NET ASSETS	**$ 60,495,172**	**$ 10,345,423**	**$ 4,667,417**	**$ (364,261)**	**$ 75,143,751**

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

At August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
ASSETS					
Cash and cash equivalents	$ 1,153,303	$ 1,642,912	$ 354,157	$ (7,391)	$ 3,142,981
Assets limited as to use	253,391	92	—	—	253,483
Accounts receivable, net	233,644	793,135	513,297	—	1,540,076
Receivables (payables) from SHC and LPCH, net	12,282	—	—	(12,282)	—
Prepaid expenses and other assets	101,999	388,725	93,576	(104,646)	479,654
Pledges receivable, net	1,369,417	47,396	109,446	(53,793)	1,472,466
Student loans receivable, net	46,089	—	—	—	46,089
Faculty and staff mortgages and other loans receivable, net	829,262	—	—	—	829,262
Investments at fair value	37,574,583	2,299,847	1,047,419	7,391	40,929,240
Right of use assets	673,926	341,580	234,215	(145,532)	1,104,189
Plant facilities, net of accumulated depreciation	7,685,710	3,646,012	1,840,898	—	13,172,620
Works of art and special collections	—	—	—	—	—
TOTAL ASSETS	**$ 49,933,606**	**$ 9,159,699**	**$ 4,193,008**	**$ (316,253)**	**$ 62,970,060**
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable and accrued expenses	$ 931,274	$ 1,864,051	$ 333,378	$ (69,562)	$ 3,059,141
Liabilities associated with investments	1,002,896	—	—	—	1,002,896
Lease liabilities	683,234	363,119	239,676	(145,532)	1,140,497
Deferred income and other obligations	1,386,649	170,746	69,054	—	1,626,449
Accrued pension and postretirement benefit obligations	597,951	93,427	28,501	—	719,879
Notes and bonds payable	5,003,552	2,340,908	881,211	—	8,225,671
U.S. government refundable loan funds	22,668	—	—	—	22,668
TOTAL LIABILITIES	**9,628,224**	**4,832,251**	**1,551,820**	**(215,094)**	**15,797,201**
NET ASSETS:					
Without donor restrictions, including non-controlling interest attributable to SHC of $101,159	22,685,294	4,193,905	2,128,735	(101,159)	28,906,775
With donor restrictions	17,620,088	133,543	512,453	—	18,266,084
TOTAL NET ASSETS	**40,305,382**	**4,327,448**	**2,641,188**	**(101,159)**	**47,172,859**
TOTAL LIABILITIES AND NET ASSETS	**$ 49,933,606**	**$ 9,159,699**	**$ 4,193,008**	**$ (316,253)**	**$ 62,970,060**

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2021 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS					
OPERATING REVENUES:					
TOTAL STUDENT INCOME, NET	**$ 507,923**	**$ —**	**$ —**	**$ —**	**$ 507,923**
Sponsored support:					
Direct costs - University	893,874	6,761	—	—	900,635
Direct costs - SLAC National Accelerator Laboratory	489,872	—	—	—	489,872
Indirect costs	297,514	—	—	—	297,514
TOTAL SPONSORED SUPPORT	**1,681,260**	**6,761**	**—**	**—**	**1,688,021**
Health care services:					
Net patient service revenue	—	6,052,048	2,138,716	(41,296)	8,149,468
Premium revenue	—	118,741	—	—	118,741
Physicians' services and support - SHC and LPCH, net	1,334,418	—	—	(1,334,418)	—
Physicians' services and support - other facilities, net	44,601	—	—	(11,254)	33,347
TOTAL HEALTH CARE SERVICES	**1,379,019**	**6,170,789**	**2,138,716**	**(1,386,968)**	**8,301,556**
TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**288,110**	**204**	**5,401**	**—**	**293,715**
Net assets released from restrictions:					
Payments received on pledges	244,646	1,227	—	—	245,873
Prior year gifts released from donor restrictions	85,281	8,964	5,107	—	99,352
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**329,927**	**10,191**	**5,107**	**—**	**345,225**
Investment income distributed for operations:					
Endowment	1,330,153	492	18,799	—	1,349,444
Expendable funds pools and other investment income	401,235	603	—	—	401,838
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,731,388**	**1,095**	**18,799**	**—**	**1,751,282**
TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME	**386,138**	**583,168**	**91,195**	**(9,209)**	**1,051,292**
TOTAL OPERATING REVENUES	**6,303,765**	**6,772,208**	**2,259,218**	**(1,396,177)**	**13,939,014**
OPERATING EXPENSES:					
Salaries and benefits	4,041,029	2,813,222	1,023,210	—	7,877,461
Depreciation	470,184	287,150	109,341	—	866,675
Other operating expenses	1,689,090	3,008,492	1,048,027	(1,396,177)	4,349,432
TOTAL OPERATING EXPENSES	**6,200,303**	**6,108,864**	**2,180,578**	**(1,396,177)**	**13,093,568**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 103,462**	**$ 663,344**	**$ 78,640**	**$ —**	**$ 845,446**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the year ended August 31, 2021 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 103,462**	**$ 663,344**	**$ 78,640**	**$ —**	**$ 845,446**
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	4,468,169	871,876	208,623	—	5,548,668
Donor advised funds, net	3,395	—	—	—	3,395
Current year gifts not included in operations	408	—	—	—	408
Equity and fund transfers, net	150,027	(101,957)	(48,070)	—	—
Capital and other gifts released from restrictions	42,188	19,240	10,270	—	71,698
Pension and other postemployment benefit related changes other than service cost	101,474	7,436	(1,731)	—	107,179
Transfer to net assets with donor restrictions, net	(75,080)	—	—	—	(75,080)
Swap interest and change in value of swap agreements	7,077	46,274	—	—	53,351
Loss on extinguishment of debt	—	(2,558)	—	—	(2,558)
Non-controlling interest attributable to SHC	19,056	—	—	(19,056)	—
Other	(3,257)	(4,402)	701	—	(6,958)
NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**4,816,919**	**1,499,253**	**248,433**	**(19,056)**	**6,545,549**
NET ASSETS WITH DONOR RESTRICTIONS					
Gifts and pledges, net	998,134	34,860	71,083	—	1,104,077
Increase in reinvested gains	4,676,143	12,307	129,446	—	4,817,896
Change in value of split-interest agreements, net	119,227	—	3,326	—	122,553
Net assets released to operations	(329,927)	(11,490)	(29,307)	—	(370,724)
Capital and other gifts released to net assets without donor restrictions	(42,188)	(19,240)	(10,270)	—	(71,698)
Gift transfers, net	(3,050)	3,030	20	—	—
Transfer from net assets without donor restrictions, net	75,080	—	—	—	75,080
Other	516	(1,677)	27	—	(1,134)
NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**5,493,935**	**17,790**	**164,325**	**—**	**5,676,050**
NET CHANGE IN TOTAL NET ASSETS	**10,310,854**	**1,517,043**	**412,758**	**(19,056)**	**12,221,599**
Total net assets, beginning of year	40,305,382	4,327,448	2,641,188	(101,159)	47,172,859
TOTAL NET ASSETS, END OF YEAR	**$50,616,236**	**$5,844,491**	**$3,053,946**	**$ (120,215)**	**$ 59,394,458**

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the year ended August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS					
OPERATING REVENUES:					
TOTAL STUDENT INCOME, NET	**$ 610,172**	**$ —**	**$ —**	**$ —**	**$ 610,172**
Sponsored support:					
Direct costs - University	858,422	—	—	—	858,422
Direct costs - SLAC National Accelerator Laboratory	484,823	—	—	—	484,823
Indirect costs	278,635	—	—	—	278,635
TOTAL SPONSORED SUPPORT	**1,621,880**	**—**	**—**	**—**	**1,621,880**
Health care services:					
Net patient service revenue	—	5,140,938	1,883,862	(38,207)	6,986,593
Premium revenue	—	116,971	—	—	116,971
Physicians' services and support - SHC and LPCH, net	1,235,774	—	—	(1,235,774)	—
Physicians' services and support - other facilities, net	42,872	—	—	(9,848)	33,024
TOTAL HEALTH CARE SERVICES	**1,278,646**	**5,257,909**	**1,883,862**	**(1,283,829)**	**7,136,588**
TOTAL CURRENT YEAR GIFTS IN SUPPORT OF OPERATIONS	**289,908**	**1,703**	**4,115**	**—**	**295,726**
Net assets released from restrictions:					
Payments received on pledges	184,442	2,591	—	—	187,033
Prior year gifts released from donor restrictions	59,481	4,996	5,828	—	70,305
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**243,923**	**7,587**	**5,828**	**—**	**257,338**
Investment income distributed for operations:					
Endowment	1,355,058	519	17,390	—	1,372,967
Expendable funds pools and other investment income	287,136	1,014	—	—	288,150
TOTAL INVESTMENT INCOME DISTRIBUTED FOR OPERATIONS	**1,642,194**	**1,533**	**17,390**	**—**	**1,661,117**
TOTAL SPECIAL PROGRAM FEES AND OTHER INCOME	**420,363**	**298,844**	**153,389**	**—**	**872,596**
TOTAL OPERATING REVENUES	**6,107,086**	**5,567,576**	**2,064,584**	**(1,283,829)**	**12,455,417**
OPERATING EXPENSES:					
Salaries and benefits	3,962,140	2,548,259	935,330	—	7,445,729
Depreciation	437,194	255,079	121,130	—	813,403
Other operating expenses	1,666,591	2,743,194	962,999	(1,283,829)	4,088,955
TOTAL OPERATING EXPENSES	**6,065,925**	**5,546,532**	**2,019,459**	**(1,283,829)**	**12,348,087**
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 41,161**	**$ 21,044**	**$ 45,125**	**$ —**	**$ 107,330**

CONSOLIDATING STATEMENTS OF ACTIVITIES, Continued

For the year ended August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
NET ASSETS WITHOUT DONOR RESTRICTIONS (continued)					
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	**$ 41,161**	**$ 21,044**	**$ 45,125**	**$ —**	**$ 107,330**
NON-OPERATING ACTIVITIES:					
Increase in reinvested gains	516,024	224,036	52,070	—	792,130
Donor advised funds, net	61,723	—	—	—	61,723
Current year gifts not included in operations	2,026	—	—	—	2,026
Equity and fund transfers, net	135,339	(98,745)	(36,594)	—	—
Capital and other gifts released from restrictions	296,492	558,467	123,907	—	978,866
Pension and other postemployment benefit related changes other than net periodic benefit expense	96,287	(1,028)	(3,467)	—	91,792
Transfer to net assets with donor restrictions, net	(128,935)	—	—	—	(128,935)
Swap interest and change in value of swap agreements	(8,314)	(53,722)	—	—	(62,036)
Non-controlling interest attributable to SHC	20,847	—	—	(20,847)	—
Other	(411)	(2,022)	621	—	(1,812)
NET CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**1,032,239**	**648,030**	**181,662**	**(20,847)**	**1,841,084**
NET ASSETS WITH DONOR RESTRICTIONS					
Gifts and pledges, net	684,985	22,084	32,172	—	739,241
Increase in reinvested gains	484,730	3,814	30,879	—	519,423
Change in value of split-interest agreements, net	14,414	—	1,879	—	16,293
Net assets released to operations	(243,923)	(10,823)	(27,333)	—	(282,079)
Capital and other gifts released to net assets without donor restrictions	(296,492)	(558,467)	(123,907)	—	(978,866)
Gift transfers, net	(334)	314	20	—	—
Transfer from net assets without donor restrictions, net	128,935	—	—	—	128,935
Other	189	(152)	(175)	—	(138)
NET CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	**772,504**	**(543,230)**	**(86,465)**	**—**	**142,809**
NET CHANGE IN TOTAL NET ASSETS	**1,804,743**	**104,800**	**95,197**	**(20,847)**	**1,983,893**
Total net assets, beginning of year	38,500,639	4,222,648	2,545,991	(80,312)	45,188,966
TOTAL NET ASSETS, END OF YEAR	**$ 40,305,382**	**$ 4,327,448**	**$ 2,641,188**	**$ (101,159)**	**$ 47,172,859**

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2021 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES					
Change in net assets	$ 10,310,854	$ 1,517,043	$ 412,758	$ (19,056)	$ 12,221,599
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	470,184	287,150	109,341	—	866,675
Amortization of bond premiums, discounts and other	30,455	(8,271)	(2,615)	—	19,569
Net gains on investments	(11,093,768)	(812,347)	(324,599)	—	(12,230,714)
Change in fair value of interest rate swaps	(10,557)	(67,638)	—	—	(78,195)
Change in split-interest agreements	158,814	—	—	—	158,814
Change in deferred tax asset and liability	129,127	—	—	—	129,127
Investment income for restricted purposes	(8,763)	(34)	107,895	—	99,098
Gifts restricted for long-term investments	(645,872)	(25,161)	(192,398)	—	(863,431)
Equity and fund transfers, net	(146,977)	98,927	48,050	—	—
Gifts of securities and properties	(30,509)	—	—	—	(30,509)
Other	36,280	2,558	(5,098)	—	33,740
Premiums received from bond issuance	79,544	17,287	—	—	96,831
Changes in operating assets and liabilities:					
Accounts receivable	19,548	(160,066)	(104,486)	—	(245,004)
Pledges receivable, net	(3,294)	(1,464)	(10,540)	—	(15,298)
Prepaid expenses and other assets	(3,969)	(40,735)	(18,352)	—	(63,056)
Accounts payable and accrued expenses	75,280	(215,280)	41,104	—	(98,896)
Accrued pension and postretirement benefit obligations	(84,491)	(6,801)	1,264	—	(90,028)
Lease liabilities	(38,773)	(1,822)	2,348	—	(38,247)
Deferred income and other obligations	131,961	74,331	53,081	—	259,373
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(624,926)**	**657,677**	**117,753**	**(19,056)**	**131,448**
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to plant facilities, net	(493,332)	(262,522)	(35,005)	—	(790,859)
Student, faculty and other loans:					
New loans made	(178,342)	—	—	—	(178,342)
Principal collected	105,835	—	—	—	105,835
Purchases of investments	(18,702,507)	(1,605,006)	(28,195)	19,055	(20,316,653)
Sales and maturities of investments	18,318,948	44,129	24,777	—	18,387,854
Change associated with short term investments	437,983	—	—	—	437,983
Swap settlement payments, net	—	(21,420)	—	—	(21,420)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**(511,415)**	**(1,844,819)**	**(38,423)**	**19,055**	**(2,375,602)**
CASH FLOW FROM FINANCING ACTIVITIES					
Gifts and reinvested income for restricted purposes	472,287	25,164	51,392	—	548,843
Equity and fund transfers from Hospitals	88,266	(40,216)	(48,050)	—	—
Proceeds from borrowing	504,656	522,815	—	—	1,027,471
Repayment of notes and bonds payable	(421,637)	(552,615)	(38,635)	—	(1,012,887)
Bond issuance costs and interest rate swaps	(1,446)	(3,966)	—	—	(5,412)
Contributions received for split-interest agreements	19,709	—	—	—	19,709
Payments made under split-interest agreements	(51,186)	—	—	—	(51,186)
Securities lending collateral received, net	9,393	—	—	—	9,393
Other	(4,907)	—	—	—	(4,907)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	**615,135**	**(48,818)**	**(35,293)**	**—**	**531,024**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(521,206)**	**(1,235,960)**	**44,037**	**(1)**	**(1,713,130)**
Cash and cash equivalents, beginning of year	1,589,085	1,643,004	354,157	(7,391)	3,578,855
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,067,879**	**$ 407,044**	**$398,194**	**$ (7,392)**	**$ 1,865,725**
SUPPLEMENTAL DATA:					
Cash and cash equivalents as shown in the *Statements of Financial Position*	$ 874,943	$ 407,044	$ 398,194	$ (7,392)	$ 1,672,789
Restricted cash included in assets limited as to use	117,179	—	—	—	117,179
Restricted cash included in other assets	28,432	—	—	—	28,432
Cash and restricted cash included in investments	47,325	—	—	—	47,325
TOTAL CASH AND CASH EQUIVALENTS AS SHOWN ON THE STATEMENTS OF CASH FLOWS	**$ 1,067,879**	**$ 407,044**	**$398,194**	**$ (7,392)**	**$ 1,865,725**
Interest paid, net of capitalized interest	$ 177,937	$ 81,580	$ 34,644	$ —	$ 294,161
Change in payables for plant facilities	$ (27,359)	$ (1,636)	$ 1,087	$ —	$ (27,908)
Right-of-use assets obtained in exchange for lease liabilities	$ 4,700	$ 30,858	$ 30,976	$ —	$ 66,534

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the year ended August 31, 2020 (in thousands of dollars)

	UNIVERSITY	SHC	LPCH	ELIMINATIONS	CONSOLIDATED
CASH FLOW FROM OPERATING ACTIVITIES					
Change in net assets	$ 1,804,743	$ 104,800	$ 95,197	$ (20,847)	$ 1,983,893
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:					
Depreciation	437,194	255,079	121,130	—	813,403
Amortization of bond premiums, discounts and other	12,913	(460)	(2,639)	—	9,814
Gains on disposal of plant facilities	654	—	327	—	981
Net gains on investments	(2,492,562)	(182,720)	(45,741)	—	(2,721,023)
Change in fair value of interest rate swaps	5,521	36,496	—	—	42,017
Change in split-interest agreements	45,222	—	(1,613)	—	43,609
Change in deferred tax asset and liability	57,219	—	—	—	57,219
Investment income for restricted purposes	(12,274)	—	11,369	—	(905)
Gifts restricted for long-term investments	(278,657)	(23,055)	(63,051)	—	(364,763)
Equity and fund transfers, net	(135,005)	98,431	36,574	—	—
Gifts of securities and properties	(27,432)	—	—	—	(27,432)
Other	25,950	—	—	—	25,950
Premiums received from bond issuance	—	19,885	—	—	19,885
Changes in operating assets and liabilities:					
Accounts receivable	58,006	1,339	(85,341)	—	(25,996)
Pledges receivable, net	(97,498)	15,000	13,163	—	(69,335)
Prepaid expenses and other assets	10,455	(108,485)	(9,078)	—	(107,108)
Accounts payable and accrued expenses	69,702	516,324	19,466	—	605,492
Accrued pension and postretirement benefit obligations	(81,802)	(112)	2,480	—	(79,434)
Lease liabilities	(21,174)	21,438	5,461		5,725
Deferred income and other obligations	73,049	28,142	30,258	—	131,449
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	**(545,776)**	**782,102**	**127,962**	**(20,847)**	**343,441**
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to plant facilities, net	(896,941)	(310,641)	(75,759)	—	(1,283,341)
Student, faculty and other loans:					
New loans made	(105,086)	—	—	—	(105,086)
Principal collected	65,511	—	—	—	65,511
Purchases of investments	(15,912,497)	(56,991)	(32,603)	20,772	(15,981,319)
Sales and maturities of investments	17,168,829	465,997	29,088	—	17,663,914
Change associated with short term investments	(684,461)	—	—	—	(684,461)
Swap settlement payments, net	—	(16,825)	—	—	(16,825)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	**(364,645)**	**81,540**	**(79,274)**	**20,772**	**(341,607)**
CASH FLOW FROM FINANCING ACTIVITIES					
Gifts and reinvested income for restricted purposes	329,708	24,015	73,466	—	427,189
Equity and fund transfers from Hospitals	178,727	(142,153)	(36,574)	—	—
Proceeds from borrowing	959,542	470,120	—	—	1,429,662
Repayment of notes and bonds payable	(179,792)	(74,134)	(8,245)	—	(262,171)
Bond issuance costs and interest rate swaps	(2,109)	(4,006)	—	—	(6,115)
Contributions received for split-interest agreements	55,503	—	—	—	55,503
Payments made under split-interest agreements	(46,095)	—	—	—	(46,095)
Securities lending collateral sold, net	(19,468)	—	—	—	(19,468)
Other	(14,319)	—	—	—	(14,319)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**1,261,697**	**273,842**	**28,647**	**—**	**1,564,186**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**351,276**	**1,137,484**	**77,335**	**(75)**	**1,566,020**
Cash and cash equivalents, beginning of year	1,237,809	505,520	276,822	(7,316)	2,012,835
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,589,085**	**$1,643,004**	**$ 354,157**	**$ (7,391)**	**$ 3,578,855**
SUPPLEMENTAL DATA:					
Cash and cash equivalents as shown in the *Statements of Financial Position*	$ 1,153,303	$1,642,912	$ 354,157	$ (7,391)	$ 3,142,981
Restricted cash and cash equivalents included in assets limited as to use	—	92	—	—	92
Restricted cash included in other assets	44,168	—	—	—	44,168
Cash and restricted cash included in investments	391,614	—	—	—	391,614
TOTAL CASH AND CASH EQUIVALENTS AS SHOWN ON THE STATEMENTS OF CASH FLOWS	**$ 1,589,085**	**$1,643,004**	**$ 354,157**	**$ (7,391)**	**$ 3,578,855**
Interest paid, net of capitalized interest	$ 146,730	$ 69,105	$ 36,072	$ —	$ 251,907
Change in payables for plant facilities	$ (53,799)	$ (100,190)	$ (16,669)	$ —	$ (170,658)
Right-of-use assets obtained in exchange for lease liabilities	$ 226,202	$ 96,491	$ 124,323	$ —	$ 447,016

Stanford University